

# Annual Report >>

# 2000



RIDLEY Inc.





# 2000

## Ridley Inc. Profile > >

**Ridley Inc.** is one of the largest North American manufacturers and distributors of formulated livestock feed, serving customers in the United States, western Canada and Ontario. Ridley also distributes animal health products that improve the productivity of livestock herds and poultry flocks.

Ridley's U.S. operations include 29 mills with an annual production capacity of 1,675,000 tons (1,520,000 metric tonnes) of feed. Its Canadian operations comprise 16 mills with annual production capacity of 900,000 metric tonnes. Ridley's products are marketed

under a number of highly regarded trade names, including Hubbard Feeds, Wayne Feeds, Feed-Rite, Daco Western Canada, Farmix, Quality Feeds, Crystalyx®, and Rite Lix™.

Ridley's Cotswold International division is a global leader in swine genetics. Cotswold's operations in the United States, Canada, the United Kingdom and Germany market their advanced Cotswold swine genetics to customers in more than 40 countries. Ridley also operates a commercial pig production unit, trading as Quality Swine Systems.

Ridley's strategy for increasing shareholder value is to build on its leadership position in animal nutrition markets, and to develop growth opportunities in related businesses where it can meet its profitability and investment return objectives as a high-quality, low-cost producer.

Ridley Corporation Limited, Australia's largest livestock feed manufacturer, owns approximately 68 percent of Ridley Inc.'s outstanding shares.



# >>Operating Highlights

## Volume Growth Remains Strong

Another year of strong total tonnage growth, 16 percent ahead of fiscal 1999, despite changing and difficult markets, especially in demand for swine feed. Ridley continued to grow market share, adding new accounts in the large commercial producer segment.

## Wayne Feeds Acquisition

Completed a major acquisition with the March 2000 purchase of Wayne Feeds, one of the 10 largest commercial feed manufacturers in the U.S. Integration with Hubbard Feeds is progressing smoothly, and when complete will yield significant synergies and cost savings. The acquisition adds substantial strength in the large commercial producer segment, extends Ridley's reach into new markets in the mid-Atlantic and South-East regions, and doubles Ridley's presence in the U.S.

## Buffalo Low-Moisture Block Plant Comes on Stream

In December of 1999, Ridley brought its Buffalo, Texas plant on stream—the most modern and efficient low-moisture block facility in operation today. Ridley Block Operations now has production facilities within 500 miles of over 75 percent of the beef cows in the U.S.

## Low-Moisture Block Volume Growth of 16%

With record sales of CRYSTALYX® Brand Supplements and private label brands of low-moisture feed supplement blocks in fiscal 2000, Ridley solidified its position as the industry leader in low-moisture blocks.

## Swine Recovery

Commercial hog prices showed encouraging improvement in the second half of the fiscal year, recovering from historically low levels, as domestic and export demand for processed pork continued to grow.

## Ridley Leads in Quality Assurance

Ridley became the first North American livestock feed manufacturer to jointly earn ISO 9001 and HACCP (Hazard Analysis and Critical Control Points) registration for quality assurance and food safety at two of its Canadian mills in Mitchell, Ontario and Fort Macleod, Alberta. The other Canadian mills are working towards joint registration by June 2001. Ridley's U.S. Feed Operations are working on a similar program, and expect to be the first large commercial feed manufacturer in the United States to be ISO 9001 registered.

## Gallaway Appointed President and CEO

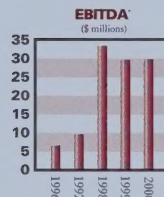
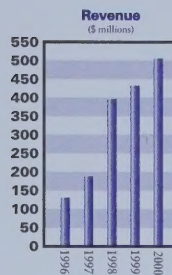
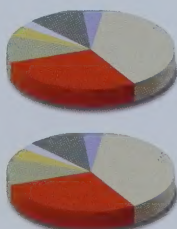
Effective June 16, 2000, Robert B. Gallaway succeeded Ed Moloney as the company's President and Chief Executive Officer. Mr. Gallaway had previously been Ridley's Chief Operating Officer.

Sales by Product Line Fiscal 2000 and 1999

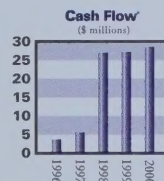
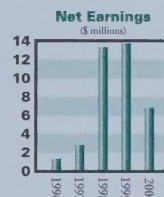
|                              | %    |      |
|------------------------------|------|------|
|                              | 2000 | 1999 |
| Cattle Feed                  | 36   | 36   |
| Hog Feed                     | 28   | 29   |
| Poultry Feed                 | 6    | 7    |
| Feed Ingredients/Supplements | 5    | 7    |
| Specialty Feed               | 4    | 4    |
| Livestock Sales              | 15   | 12   |
| Other                        | 6    | 5    |

>>2000

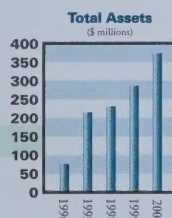
>>1999



\* Earnings before interest, taxes, depreciation & amortization.



\* Cash flow generated from operations before changes in non-cash working capital.

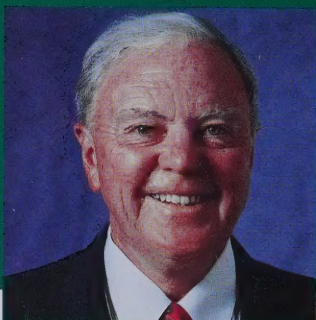


## Table of Contents

- 2 Chairman's Report
- 4 President & CEO's Report
- 9 Map of Operations
- 10 U.S. Feed Operations
- 14 Ridley Block Operations
- 18 Canadian Feed Operations
- 22 Cotswold Operations
- 26 Research & Development
- 28 Board of Directors
- 30 Management's Discussion & Analysis
- 37 Financial Statements
- 56 Directory

# 2000

**Dr. J S Keniry**  
Chairman



## Chairman's Report >>

**Reviewing** fiscal 2000, we believe that there were a number of significant accomplishments that should be very encouraging for Ridley's shareholders as confirmation that we are building value for the long term.

At the same time, however, difficult market conditions persisted in the agri-business sector, particularly the swine industry, and combined with unusually mild and dry weather conditions in North America, reduced demand for livestock feed. These factors were largely responsible for the company reporting earnings before interest, taxes, depreciation and amortization (EBITDA), excluding non-recurring items, that were flat with the prior year, and a decline in our net earnings.

Regardless of the market factors affecting our business, we cannot be satisfied with these results and are committed to improving them in fiscal 2001. We believe that the progress made in the past year, and the strengthening in our performance in the second half, support our confidence that Ridley will achieve increased profitability in 2001.



Foremost among our accomplishments in 2000 was the completion at the end of our third quarter of a major acquisition, the purchase of the Animal Nutrition Division of the ContiGroup Companies (Wayne Feeds), for US\$37 million. This acquisition doubled Ridley's size in the U.S., expanding our geographic reach and adding considerably to our strength in serving the large commercial producer segment.

This purchase is consistent with the strategies we have successfully employed, since entering the North American market in 1994, to expand our business through acquisitions when we identify attractive opportunities that will add key customers, operations, and products to further our growth and create value for our shareholders.

The complex process of integrating Wayne Feeds with our Hubbard Feeds operations is proceeding smoothly and on schedule. We expect to see the initial benefits of this acquisition, including improved efficiencies and reduced costs, early in the new fiscal year, with the fuller impact being realized in the fiscal second quarter following completion of the integration process.

Funding for the Wayne Feeds acquisition required an increase in the company's bank debt. As a result, the Board determined that shareholders' interests will be best served at the present time by deferring dividend payments, and applying the company's strong cash generation to reducing this debt. When debt levels have been reduced, the Board will consider paying dividends again in future quarters.

A second encouraging accomplishment in 2000 was that our livestock feed operations in Canada and the U.S., although coping with a weak economic climate for agri-business, were able to win significant new customers, gaining market share and shipping greater volumes.

A third development was the long-awaited recovery of the hog industry, in the second half of our fiscal year, from two years of depressed prices that reached an historic low in December 1998. The improved pricing and our focus on reducing costs enabled our Quality Swine Systems operation to considerably reduce its loss compared with fiscal 1999. The improved market conditions also enabled our Cotswold swine genetics division to improve its performance in the second half of the year, following a poor first six months.

Following a decision taken in June that Ridley's President and Chief Executive Officer, Ed Moloney, would return to Australia, the Board appointed Robert B. (Bob) Gallaway to succeed him. We wish to recognize Ed's contributions in establishing Ridley in North America and positioning it as an industry leader. Ed guided the company through key acquisitions, including the 1994 purchase of Feed-Rite Ltd., a leading Canadian feed manufacturer founded in 1939, and the subsequent acquisition of Hubbard Feeds, which has been manufacturing feed in the U.S. for over 70 years.

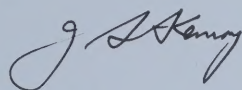
Bob Gallaway brings to his new position more than 35 years of experience in the North American and international feed industry. He has made significant contributions to Ridley's growth during his years as Vice-President responsible for the company's U.S. operations, with the Wayne Feeds acquisition being the largest of several deals that he completed. Bob most recently served as the company's Chief Operating Officer.

In addition Ridley announced several other key appointments, providing the company with an expanded senior management team to direct its continuing growth in North America and internationally. The announcements included Steve VanRoekel, who was appointed Vice-President, General Manager, U.S. Feed Operations; Bob Frost became Vice-President, General Manager, Ridley Block Operations; and John McKee was named Vice-President, General Manager, Cotswold International. Also, Mike Mitchell, formerly Administration Manager for Hubbard Feeds, was appointed the company's Chief Financial Officer. George Vis, formerly Vice-President, Canadian Operations left the company to pursue other

business interests. We thank George for his substantial contribution to the success of Ridley and wish him well in his new endeavors. Cal Martin has assumed responsibility for the Canadian operations, in the position of General Manager, Canadian Feed Operations.

The key to our success continues to be focusing on our customers first, and combining our considerable skills and scientific expertise to meet their specific needs. By maintaining this focus and continuing to build on the solid market positions that we have obtained, we expect to continue to grow our business in 2001, and are optimistic that operating results will be more satisfactory, and indicative of the potential of the business. We appreciate the continuing support of our shareholders as we pursue these goals.

We also wish to recognize the dedication of our employees. In managing the growth of our business even in difficult markets, they have demonstrated their skills and commitment to our customers and to Ridley, and we thank them for their efforts.



Dr. J. S. Keniry  
Chairman



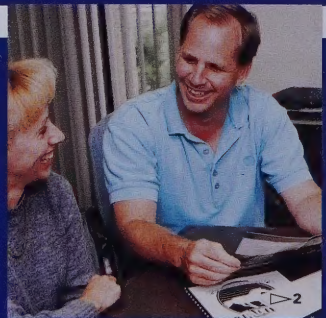
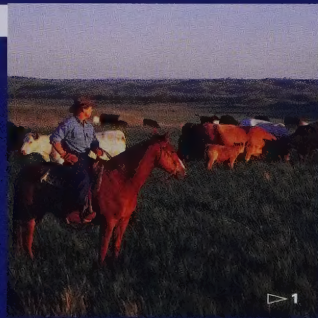
2000

**R B Gallaway**  
President & Chief Executive Officer



p.4

President &  
Chief Executive Officer's Report >>

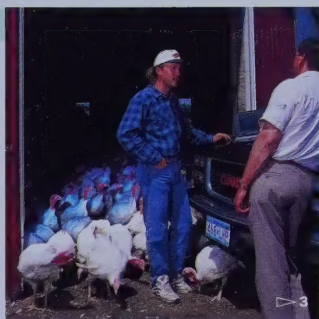




**Throughout** the past year, we continued to build our business in each of our operating divisions, and we are pleased with the progress that Ridley made in key areas in fiscal 2000:

- increasing our livestock feed volumes in Canada and the United States, and our market share in most feed categories;
- opening the most modern and efficient low-moisture block plant in operation today;
- improving the results of our Cotswold Operations and of Quality Swine Systems in the second half of the year; and
- perhaps most significantly, completing a major acquisition, Wayne Feeds, which we expect will be a very important contributor to our future growth.

All of the above was achieved in the face of very difficult market conditions, and although we recorded improved operating results in the second half of the year, for the full year the company incurred a decline in its earnings. We are very determined that we must and will improve on this in 2001.



▷1

Sales volume of CRYSTALYX® low-moisture feed supplement blocks increased by more than 16 percent, as more customers learned about their benefits and new applications were successfully promoted.

Net earnings amounted to \$6.401 million (\$0.48 per basic share and \$0.47 on a fully diluted basis) for 2000, compared with \$13.884 million (\$1.04 per basic share and \$1.03 on a fully diluted basis) for fiscal 1999.

The fiscal 2000 results include the contribution of Wayne Feeds, acquired at the end of the fiscal third quarter for US\$37 million in cash. A significant increase in interest expense (\$10.342 million in 2000, compared with \$6.951 million in 1999), mainly reflecting higher interest rates and increased borrowing levels incurred to finance the acquisition of Wayne Feeds, adversely affected our earnings performance. We are focusing on applying operating cash flow to reduce debt and interest costs in future periods.

The annual result also reflects several non-recurring items, including a claim settlement received from suppliers (\$7.759 million), partly offset by a write-down of an investment and the costs associated with the previously announced closure of the Sioux Falls, South Dakota feed mill. The after-tax effect of these non-recurring items was a net gain of \$2.823 million. The net earnings for the 1999 period include a non-recurring foreign exchange gain of \$5.356 million resulting from the capital restructuring of Ridley's business in the U.S.

EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted to exclude the effects of the non-recurring items, were \$29.445 million in 2000, up slightly from the \$29.409 million recorded for the prior year. Actual EBITDA, including the non-recurring items, were \$34.152 million in 2000.

▷2

Tom Koch, Marketing Manager at Hubbard Feeds, discusses a new marketing initiative with Dora Peterson.

Sales for 2000 were \$506.6 million, compared with \$435.6 million in 1999. Sales by dollars change with commodity prices, such as grains, as well as prices for commercial market hogs, and are not indicative of the strength of the business.

Indicative that Ridley is on the path toward improved performance in 2001, the year closed with improved fourth quarter EBITDA amounting to \$6.149 million, a 17.8 percent increase compared with \$5.220 million for the fourth quarter last year.

The Management's Discussion and Analysis section of this report, beginning on page 30, provides a complete review of our financial performance and condition.

▷3

P & J Turkeys Inc. of Greenbush, MN is a long-time customer of Feed-Rite's Winnipeg mill. Scott Jaenicke of P & J Turkeys (left) discusses feeding programs with Feed-Rite's Don McDonald.

Sales for 2000 were \$506.6 million, compared with \$435.6 million in 1999

## > > Increased Market Share

Our operations in Canada and the United States had to contend with a generally weak agri-business climate, with the swine production sector being severely depressed. Mild and dry winter weather reduced the overall demand for livestock feeds, particularly for beef cattle, which were able to do more range grazing in such conditions.

It is therefore noteworthy that our Feed-Rite and Hubbard operations were able to capture a larger share of the livestock feed market, increasing the tonnage shipped in all segments except swine.

In the U.S., Hubbard's feed volume sales were up about 10 percent in all areas, excluding swine feed, which dipped by about 8 percent. Overall, volumes were up about 27.6 percent for the U.S. operations for fiscal 2000, and excluding the Wayne Feeds contribution, about 6 percent in the Hubbard facilities. However, the highly competitive market conditions placed pressure on pricing and profit margins. U.S. profitability also was adversely affected by Wayne Feeds' operating costs which are being reduced as the integration with Hubbard proceeds.

In Canada, the addition of several major new customers enabled Feed-Rite to achieve a 4.4 percent increase in feed volumes. Prices remained essentially flat for the year, placing pressure on margins, particularly in swine feeds. Encouragingly, our Quality Swine Systems commercial hog production operations reported a considerably reduced loss compared with 1999, reflecting the improvement in hog pricing in the second half and our efforts to reduce costs. Hog prices have continued to improve and this segment was operating profitably as we entered 2001.

The improved market conditions also were a factor in our Cotswold Division's swine genetics business showing improvement in the second half of the year after a poor first six months.

In addition, we continued to focus on managing the business efficiently at the plant level, lowering the cost per ton of producing feed. Many of the steps taken bode well for the future because the benefits were just beginning to be evident at the close of the fiscal year. For example, during the year we undertook a number of capital investment projects to improve efficiency and capacity at several mills in both Canada and the U.S.

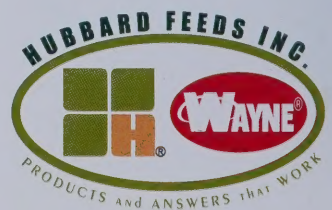
## > > Integration of Wayne Feeds Proceeds According to Plan

Since entering the North American market in 1994 with the acquisition of Feed-Rite, we have rapidly grown our business and market presence through a combination of strategic large and small acquisitions, and by growing our established businesses. Therefore, we were very pleased in 2000 to be able to complete a major acquisition that significantly increased our market position and which we expect will be an important contributor to our growth in the future.

We completed this transaction, the purchase of the ContiGroup Companies' Animal Nutrition Division (Wayne Feeds), at the end of March and immediately proceeded to integrate its operations with those of Hubbard Feeds. With this acquisition, Ridley ranks as one of the largest livestock feed manufacturers in

North America. The acquisition of Wayne Feeds significantly expanded our presence in the U.S. Midwest and marks our entry into new markets in Pennsylvania, Kentucky, Wisconsin, and North Carolina.

Wayne Feeds offers a complete line of highly regarded feed products for the dairy and beef cattle, swine, equine, sheep, and layer hen markets. The addition of feed products for the equine and layer hen markets, and Wayne's strength in serving large producers of swine lessens the current seasonality of Ridley's business. Historically, our second and third fiscal quarters have represented a substantial part of our business, reflecting beef cattle feed consumption and the impact of low-moisture block sales.





Wayne Feeds' product mix, customer base, and culture are very complementary with our Hubbard Feeds operations in the U.S. Through integrating our operations, including facilities, systems, and management, we expect to realize significant efficiencies contributing to increased shareholder value. This process will include the closing or sale of several plants, with production being transferred to other facilities. Early in the new year, we announced the planned closures of the former Wayne plants in Coralville, Iowa and Janesville, Wisconsin. We recognized all of the costs of this integration program at the time of the purchase of Wayne Feeds and do not anticipate taking additional charges.

The integration planning and implementation has proceeded ahead of our expectations, thanks to the fine efforts of many people across the U.S. operations. As a result, we expect to begin seeing the benefits of the expected cost efficiencies, increased volumes, and other synergies as early as the 2001 first quarter, with the full impact becoming evident following completion of the integration in the fiscal second quarter.

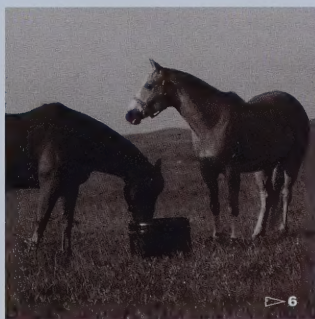
## > > Low-Moisture Block Plant Opens

In December, we began operations at our Buffalo, Texas low-moisture block plant, the most modern and efficient facility in operation anywhere today. We have been extremely pleased with its performance and with the market acceptance it has earned since opening. The location and capacity of this plant extended our coverage of the market for low-moisture blocks to more than 75 percent of the beef cows raised in the United States.

The staff at Ridley Block Operations deserve a special commendation for the smooth start up of the facility, its continuing operational success, and their flawless work in serving customers as production and shipments shifted to Buffalo from our facilities at Worthington. Despite the shift, it is noteworthy that Worthington maintained its volume and profitability as it met the growth in customers' demand for our products. Overall, low-moisture block sales volume rose more than 16 percent from the past year.



>4 Integration of the operations of Wayne Feeds with those of Hubbard Feeds is progressing smoothly. The two organizations have highly complementary product lines.



>5 Ridley's new low-moisture block manufacturing plant in Buffalo, Texas opened in December 1999, helping to solidify Ridley's position as the industry leader in low-moisture blocks.

## > > Ridley Leads with Joint ISO 9001 and HACCP Certification

An important accomplishment during the year was Ridley's Canadian Feed Operations becoming the first feed manufacturer to begin jointly registering its mills under the ISO 9001 and Hazard Analysis and Critical Control Points (HACCP) quality control and food safety programs.

ISO 9001 is a program aimed at detecting and preventing any non-conforming product during production, while HACCP is a systematic approach to controlling food safety throughout the manufacturing process.

Two of the Canadian mills have already earned joint registration, and the remainder should be completed by June of 2001. The U.S. Feed Operations are working toward registration as well.

>6 CRYSTALYX® low-moisture feed supplement blocks are produced in a complete family of formulations, designed for specific livestock types and pasture conditions.

Wayne Feeds offers a complete line of highly regarded feed products



## > > **Cotswold Affected by Swine Industry Weakness**

Ridley's Cotswold International division is one of the world's foremost suppliers of swine genetics, and a leading integrator of technology in the pig breeding industry. Its performance continued to be adversely affected by difficult trading conditions for the swine industry in North America, Europe and around the world.

Earnings performance has not been satisfactory, reflecting the highly competitive environment in which it is operating, but Cotswold has been successful in increasing market share in the last year, and has made a number of initiatives to restructure its business. The establishment of a Cotswold USA sales and marketing organization will significantly enhance our presence in the U.S. Expansion of the Titan line of genetics and of our artificial insemination unit in Canada will improve Cotswold's ability to address the needs of the market.

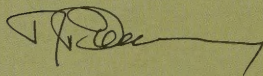
Looking forward, the planned transfer of genetic lines to the North American nucleus operations will provide Cotswold with complete stand-alone sets of nucleus populations in North America and the United Kingdom. This will greatly improve Cotswold's flexibility in meeting the specific requirements of markets on both sides of the Atlantic.

We expect that the numerous initiatives undertaken by Cotswold will improve its competitive position, and that it will produce much improved operating results in 2001.

## > > **Brightening Outlook**

As our 2001 year began, I took up my new responsibilities as the company's President and CEO. I did this with enthusiasm and optimism, because I feel strongly that Ridley is poised to realize significant future growth and improved profitability. This will result both from improvements in our key markets that were underway late in fiscal 2000 and from the cost-cutting and business-building efforts of everyone across our company. All of us at Ridley are very proud of the company and the relationships that we have forged with our customers.

I would like to commend everyone in the organization for their terrific effort, their focus on the fundamentals, on growing the business, making new sales and bringing in new customers. By integrating our science capabilities with our feeds base to help customers, we are providing more products, services, and customized solutions that spell success for our customers, and for Ridley. With the continuing dedication and effort of our employees, we expect to build further on the foundation that we established in 2000 and prior years, and to achieve growth in 2001.



Robert B. Gallaway  
President and Chief Executive Officer





## Ridley Inc. North American Operations >>

- |                                 |                             |                            |
|---------------------------------|-----------------------------|----------------------------|
| 1 Rocky Mountain House, Alberta | 22 Bismarck, North Dakota   | 39 Stockton, California    |
| 2 Rimbey, Alberta               | 23 Grandin, North Dakota    | 40 Buffalo, Texas          |
| 3 Lacombe, Alberta              | 24 Whitewood, South Dakota  | 41 Columbus, Nebraska      |
| 4 Linden, Alberta               | 25 Rapid City, South Dakota | 42 Atlantic, Iowa          |
| 5 Fort Macleod, Alberta         | 26 Watertown, South Dakota  | 43 Coralville, Iowa        |
| 6 Lethbridge, Alberta           | 27 Huron, South Dakota      | 44 Appleton, Wisconsin     |
| 7 St. Paul, Alberta             | 28 Alexandria, Minnesota    | 45 Janesville, Wisconsin   |
| 8 Lloydminster, Alberta         | 29 Worthington, Minnesota   | 46 Mendota, Illinois       |
| 9 Swift Current, Saskatchewan   | 30 Mankato, Minnesota       | 47 Bushnell, Illinois      |
| 10 Saskatoon, Saskatchewan      | 31 Sioux City, Iowa         | 48 Castleton, Indiana      |
| 11 Prince Albert, Saskatchewan  | 32 Storm Lake, Iowa         | 49 Hopkinsville, Kentucky  |
| 12 Humboldt, Saskatchewan       | 33 Iowa City, Iowa          | 50 Lancaster, Pennsylvania |
| 13 Reston, Manitoba             | 34 Fremont, Nebraska        | 51 Selma, North Carolina   |
| 14 Brandon, Manitoba            | 35 Lusk, Wyoming            | 52 New Liskeard, Ontario   |
| 15 Austin, Manitoba             | 36 Shipshewana, Indiana     | 53 Urbandale, Iowa         |
| 16 Killarney, Manitoba          | 37 Botkins, Ohio            |                            |
| 17 Manitou, Manitoba            | 38 Mitchell, Ontario        |                            |
| 18 Arborg, Manitoba             |                             |                            |
| 19 Malonton, Manitoba           |                             |                            |
| 20 Winnipeg, Manitoba           |                             |                            |
| 21 Grunthal, Manitoba           |                             |                            |



## >> Ridley Inc. European Operations

- |                              |                         |
|------------------------------|-------------------------|
| 1 Rothwell, Lincolnshire     | 6 Fawley, Staffordshire |
| 2 Claxby, Lincolnshire       | 7 Edgecote, Oxfordshire |
| 3 Moortown, Lincolnshire     | 8 Tytherley, Wiltshire  |
| 4 Barsey, Lincolnshire       | 9 Wye, Kent             |
| 5 Colsterworth, Lincolnshire | 10 Lemgo, Germany       |

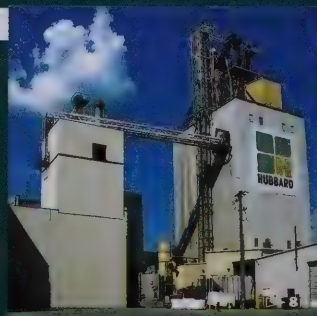


**S J VanRoekel**  
Vice-President, General Manager,  
U.S. Feed Operations

p.10



## United States Feed Operations >>





**Entering** its eighth decade of manufacturing feed, Ridley's U.S. business, Hubbard Feeds, which is headquartered in Mankato, Minnesota, enjoyed an excellent year and positioned itself for substantial growth in fiscal 2001.

Hubbard's sales and marketing teams have had to contend with an economic climate for agri-business that has been generally weak, and in the case of swine production, has been severely depressed. Mild and dry winter weather had the effect of reducing overall demand for livestock feeds, particularly for beef cattle, which are able to do more range grazing in such conditions. Nevertheless, the company captured a larger share of the livestock feed market, increasing tonnage shipped in all livestock segments, with the exception of the depressed swine sector.



▷7 Hubbard's Dairy Project Team focused on large progressive Midwestern dairies, and was successful in attracting several new customers to the Hubbard Feeds program in 2000.

## > > Feed Volume Increases

Feed sales volume to all species was ahead of 1999 by about 10 percent, except for the swine sector, which was down about 8 percent.

Over the past several years, a fundamental change has been taking place in livestock production, as a relatively small number of producers continue to aggressively expand while many more producers leave the business. This process continued at an accelerated pace in fiscal 2000. As this shift has been taking place, Hubbard has successfully re-focused its nutrition programs, addressing the increasingly complex needs of the remaining large producers, and helping its existing customers to grow.

Hubbard's increased volume and focus on cost control enabled it to achieve increased earnings at the plant level, despite very competitive market conditions. Continued good plant management, and steps taken this year to restructure operations, are expected to contribute significantly to the bottom line in fiscal 2001. The restructuring included closure of the Sioux Falls, South Dakota facility in April, with feed volumes being moved to Sioux City, Iowa; Huron, South Dakota; and Watertown, South Dakota. Hubbard also discontinued use of the Zip and Vigorena brands in the marketplace, reducing packaging and promotional costs.

Focusing on a high level of customer service for both established and new customers enabled Hubbard to increase its shipments of feed for beef cattle, although the overall market for beef cattle feed declined with the mild winter and a shrinking cow herd in the U.S.

Dairy herd economics remained very good for much of the year, contributing to dairy feed volume gains for the company. Aggressive expansion has been taking place among a relatively small segment of the market, while strong beef prices contributed to the decision of many producers to exit the dairy business. As milk prices began to deteriorate in the latter part of fiscal 2000, the rate of liquidation increased, and the expanding segment seized the opportunity to grow with less expensive stock.

Hubbard Feeds also recorded volume improvements in other segments, such as the companion animal, or horse, dog, cat and show feeds product lines, and enjoyed good growth in key dealer segments.

## > > Swine Recovery

U.S. swine producers spent most of the fiscal year operating at price levels ranging from unprofitable to barely break-even in a very difficult trading environment. Prices have gradually recovered from the historic lows in December of 1998, but many producers were left in severe financial distress. The result has been a significant liquidation of herds, creating a negative impact on swine feed sales. Despite this, Hubbard was successful in opening many new swine accounts during fiscal 2000.

▷8 Construction was completed in 2000 on a new packing tower for the Mankato feed mill, which will lower production cost per ton and provide increased manufacturing capacity.

▷9 Corporate Purchasing Manager Dennis Conlon is responsible for coordinating the purchasing function for all of Ridley's North American feed operations.





The expansion among a small number of large commercial producers is fundamentally changing the market structure, and Hubbard's customer base. The challenge for Hubbard is to respond successfully to the more complex needs of commercial producers, who expect a high level of value-added services, at very competitive prices. These producers are also less likely to purchase higher inclusion products, being more inclined to manufacture their own complete feed.

We are confident in Hubbard's ability to meet the challenge. Hubbard's success in broadening its customer base and serving producers of all segments is evident. Its business with meat, milk and egg producers is growing, as is the total number of animals that Hubbard feeds.

## > > **Wayne Feeds Acquisition**

The major event of the year for Ridley's U.S. Feed Operations was the acquisition of Wayne Feeds in March. The acquisition included Wayne Feeds' twelve production facilities, significantly expanding Hubbard's presence in the U.S. Midwest, and providing access to new markets in Pennsylvania, North Carolina, Kentucky and Wisconsin. The addition of Wayne Feeds was a major step that will change the dynamics of Hubbard's feed business. The acquisition doubles production capacity, and allows Hubbard to offer a broader range of feed products through a larger distribution network.

Wayne Feeds manufactures a full line of complete feeds, concentrates, supplements, pre-mixes and animal health products. The company's highly-regarded feed and nutrition products address the dairy and beef cattle, swine, equine, sheep, and layer hen markets, and are distributed to producers through a network of some 1,000 dealers. Its facility in Mendota, Illinois is a specialized vitamin and feed additive blending plant. It supplies micro-premixes and additives to the other Hubbard and Wayne plants, as well as to commercial livestock producers and feed companies. Mendota also provides custom manufacturing services to animal health companies.

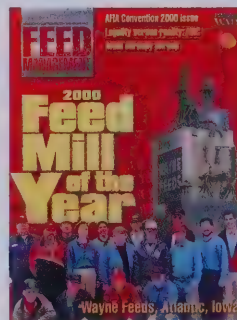
An added bonus accruing from the acquisition came when Wayne Feeds' Atlantic, Iowa feed mill was awarded the title "2000 Feed Mill of the Year". As reported in the April 2000 edition of *Feed Management* magazine, the contest is co-sponsored by the American Feed Industry Association and Feed Management. Atlantic won the prestigious award this year after having received honourable mention the past two years. Congratulations to the management and staff for their outstanding achievement.

The addition of Wayne Feeds provides a number of advantages to Ridley's U.S. Feed Operations. Specifically, the acquisition:

- increases our market share, doubling our size;
- extends our geographic reach into the attractive mid-Atlantic and South-East regions;
- gives us a presence in the U.S. egg layer nutrition business, where Wayne Feeds has a significant market share;
- establishes us in the feed ingredient market
- increases dramatically our penetration of the large commercial producer segment;
- strengthens the company through further product and customer diversification; and
- helps to reduce the seasonality of our total feed business.

Moreover, the acquisition provides Hubbard with a long list of opportunities to capture the benefits of consolidation and rationalization, and improve plant, sales, marketing, administration and other operating efficiencies. Hubbard also now enjoys expanded purchasing power, an increased dealer network, and greater strength in its field sales force.

The process of integrating Wayne's operations with Hubbard's, including administration, sales, purchasing and production, has been proceeding smoothly and according to schedule. The two organizations have highly complementary product lines, customer lists and corporate cultures, which has facilitated a transition that has been relatively seamless.





It is expected that the integration of the two organizations will be completed in the second quarter of fiscal 2001, and that substantial operating efficiencies and market penetration will be realized as a result.

In addition to the contributions that the Wayne Feeds acquisition will make in fiscal 2001, Hubbard continues to grow its business in a number of areas. Capital projects completed in fiscal 2000 include the construction of a new packing tower in Mankato that will increase production capacity and lower per ton production costs, and a new load-out and receiving system at Rapid City, South Dakota, resulting in a significant boost in production.

Hubbard continues to position itself as a leader in the field of animal nutrition, and to assure it maintains that position, a considerable investment is made in research and development. An ongoing program of research is directed towards providing our customers with the most cost-efficient nutrition for their livestock. Please refer to the Research & Development section of this annual report for information on two significant new research alliances Hubbard Feeds entered into in fiscal 2000.



## > > Outlook for Fiscal 2001

Hubbard is anticipating a changed and much improved swine production sector, with success being hinged on working with large commercial producers who will be few in number, but represent an increasing share of total hogs produced. The outlook for the beef cattle industry remains positive, and continued good growth in the companion animal and dealer sectors is expected in fiscal 2001. Volatility in the dairy industry is likely to occur, as it undergoes a fundamental change similar to the consolidation that is taking place in the swine industry. Overproduction in the layer industry is a concern, with growth depending on working successfully with the large commercial producers.

With favorable market conditions, the completion of the integration of the Wayne Feeds business, and by remaining focused on the needs of today's meat, milk and egg producers, we are optimistic about fiscal 2001.

▷10

The Atlantic, Iowa feed mill was named "2000 Feed Mill of the Year", as reported in *Feed Management* magazine's April issue.

*Magazine cover photo courtesy of Feed Management magazine.*

▷11

Acquisition of Wayne Feeds increases Ridley's presence in the U.S. Midwest, and extends our reach into Pennsylvania, Kentucky, Wisconsin and North Carolina.

▷12

Hubbard's Lean Start® 11-14 is a palatable and easily digestible feed designed to transition newly weaned pigs from milk to dry feed, promoting fast and efficient gain in the first week.



2000

**R E Frost**  
Vice-President, General Manager,  
Ridley Block Operations

p.14



# Ridley Block Operations



**Ridley's** Block Operations consist of four manufacturing plants located in Worthington, Minnesota; Whitewood, South Dakota; Stockton, California; and Buffalo, Texas. These facilities produce a complete line of low-moisture feed supplement blocks, which provide an efficient and cost-effective means for livestock producers to provide supplemental nutrition to their cattle, horses, sheep and goats.

The low-moisture blocks are manufactured in a precisely controlled process that cooks beet or cane molasses products and fat, reducing the moisture content in these ingredients to about 0 percent. The dehydrated molasses and fat is then blended with proteins, minerals, vitamins and trace minerals. The resulting product is placed in shallow steel barrels or plastic containers. As the product cools, the sugars in the molasses crystallize to form a consistently hard block that will not crack or crumble and that can't be bitten, chewed, or over-consumed. The blocks are impervious to the elements, so there is no wasted supplement due to wind, rain or snow.

The hygroscopic nature of the low-moisture blocks causes a thin layer on the surface to soften, and the licking action of the animals ensures a limited and consistent intake.

Ridley is the largest manufacturer of low-moisture feed supplement blocks in North America, marketing its own brands of blocks through its internal distribution system as well as through an extensive network of dealers and distributors. Ridley produces low-moisture blocks in a complete family of formulations under the name CRYSTALYX® Brand Supplements, each of the products being designed for specific livestock types and pasture conditions. Some of the specialized products include Beef-lyx®, Brigade®, Dairy-lyx®, and Mineral-lyx® low-moisture blocks. Feed-Rite distributes the highly successful RITE LIX™ supplement blocks in Canada. In addition, Ridley Block Operations produces a significant and growing quantity of low-moisture blocks under private label agreements with other feed companies.

## > > Record Year for Low-Moisture Blocks

Ridley Block Operations enjoyed an outstanding year in fiscal 2000, with new records established for sales and production tonnage of low-moisture feed supplement blocks. Success came as a result of capital investments made by Ridley in production facilities, research and marketing, as well as the time and talent of the people who make up Ridley Block Operations. This combination proved to be the right mixture for a year of accomplishments.

There were a number of significant achievements for Ridley Block Operations. The new Buffalo, Texas facility came on line, and additional research confirmed that the blocks manufactured by Ridley serve our clients well. More customers are using Ridley low-moisture blocks, and existing customers are using more of them. In addition, new applications were successfully promoted for our products.



### > 13 & 14

Ridley Block Operations' new plant in Buffalo, Texas is highly automated, making it the most modern and efficient low-moisture block production facility in operation today.

### > 15

The four production facilities of Ridley Block Operations are located within 500 miles of over 75 percent of the beef cows in the United States.



Business grew substantially in fiscal 2000, primarily due to efforts made toward educating producers on the value of low-moisture blocks for live-stock feed supplementation. All-time sales and production records were established, led by the flagship product, CRYSTALYX® Brand Supplements, for which sales volume increased by more than 16%. Sales of the RITE LIX™ brand of supplement blocks manufactured for Feed-Rite in Canada, and which was introduced to the market two years ago, increased by over 30%. Meanwhile, private label blocks across North America also posted an increase in tonnage. Sales representatives applied their knowledge and enthusiasm to grow tonnage and market penetration for Ridley's brands and for private label accounts. Marketing support activities included product training, technical service, feeder meetings, and direct calls on producers, which added to the success.

## > > New Plant in Texas

The new Buffalo, Texas plant was commissioned in December 1999. The Buffalo plant is the most modern and efficient low-moisture block plant in operation today. It is highly automated and includes sophisticated computer controls to ensure that customers will receive the best quality product on the market. Now that our state-of-the-art Buffalo plant is on-line and in service, Ridley Block Operations currently has production facilities located within 500 miles of over 75% of the beef cows in the United States. We also have export access through both the Gulf Coast and the West Coast.

The additional manufacturing capacity provides us with greater flexibility in meeting the growing demand for low-moisture blocks, and opens up new markets for our products. We are now better equipped to target markets in the South-Central and South-Eastern United States, and in combination with our plant in Stockton, are able to service all of the South-West.

Ridley also made a significant investment in fiscal 2000 in a number of capital projects carried out at each of our other three block plants. The capital expenditures were made to increase manufacturing capacity, improve product quality, and reduce production cost. Warehouse capacity was also enlarged at each plant in order to streamline product shipments.

Our production facilities responded with record-setting production at Worthington, Whitewood, and Stockton. The success was due in large part to the dedicated efforts of our employees, and the teamwork and commitment they received from our distribution network in communicating and distributing the low-moisture block story to livestock producers.



▷ 16

CRYSTALYX® low-moisture blocks contain protein, fat, vitamins and trace minerals to supplement the nutrient quality of natural pastureland.

▷ 17

Market acceptance of the RITE LIX™ brand of feed supplement blocks, distributed in Canada by Feed-Rite, has been excellent.



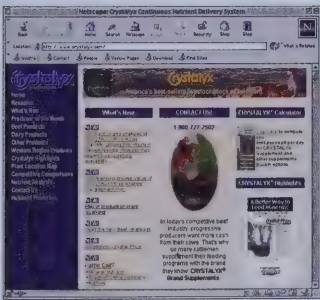
▷ 18

Customers wanting to learn more about the advantages of low-moisture block feed supplements can visit the Ridley Block Operations website at: [www.crystalix.com](http://www.crystalix.com)

## > > Research & Development

Research activity has been and will continue to be crucial to the success of Ridley Block Operations. From the lab to the field, no other block manufacturer has invested more time and resources to research. Ridley has formed research alliances and cooperated in research activities with universities and private livestock operations. Recent projects have been undertaken in conjunction with universities in the Midwest and West, CPC Livestock of Fountain Run, Kentucky, and Shadbolt Cattle Company of Merriman, Nebraska.

The studies have confirmed the efficiency of our products through their ability to provide profitable returns to livestock producers. More detail about the studies is provided in the Research and Development section of this annual report.



18

## > > Marketing

Ridley Block Operations has also committed a significant amount of time and resources in getting its message to the market. Investment in an aggressive marketing communications program has raised awareness in important market segments and made CRYSTALYX® Brand Supplements one of the best known names in the beef cattle business today. Targeted news items, advertising in regional and national beef publications and editorials throughout the year increased the awareness and demand for low-moisture blocks. CRYSTALYX® Brand Supplements also publishes "Cattle Call"™ - News and Information for Today's Progressive Beef Producer". The newsletter features information about nutrition programs, research updates, new product information, and special offers and incentives.

A carefully planned and coordinated advertising campaign in the past year not only educated producers on the benefits of low-moisture block supplements, but also positioned CRYSTALYX® Brand Supplements as the leading brand in this product category. A new advertising campaign, focusing on the positioning line "Results by the barrel", will feature comments from satisfied customers in the coming year.

Significant business has been driven by the CRYSTALYX® Brand Supplements web site ([www.crystalux.com](http://www.crystalux.com)), which has become a reliable source for information for producers as well as potential customers. Recent enhancements to the web site include a consumption cost calculator that enables a user to determine his cost-per-head-per-day for supplementation and a demonstration of cattle grazing patterns via GPS tracking. The "CRYSTALYX® Producer of the Month" continues to be a popular feature that attracts repeat visits to the site. Ridley Block Operations has also had a significant presence at major beef industry trade shows throughout North America.

Ridley has always been confident that its block operations were an aspect of the business that had great potential for growth. The results of the past year have borne that out. Topping the strong performance of fiscal 2000 will be a challenge, but it is a challenge that Ridley Block Operations intends to take head on.

Meeting that challenge will require continued wise use of investment capital in equipment upgrades for increased efficiency, an aggressive and targeted marketing campaign, and ongoing research into new product development and existing product effectiveness.

Perhaps most crucially, Ridley Block Operations will continue the dialogue with the most important element of our success: our existing and potential customers, so that we can keep on growing the business.

p.17

>



2000

C E Martin  
General Manager,  
Canadian Feed Operations

p.18



## Canadian Feed Operations



**Ridley's** Canadian Feed Operations completed their 61st year of operations in fiscal 2000. The Canadian Feed Operations conduct business primarily under the name Feed-Rite, but also trade as Quality Feeds and Macleod Feeds in Alberta, Farmix in Ontario and Daco Western Canada in Alberta and Manitoba. In all, there are 16 feed manufacturing facilities and 7 retail stores, as well as a commercial hog production unit, doing business as Quality Swine Systems.

The Canadian Feed Operations were affected in fiscal 2000 by trading conditions very similar to those experienced by Ridley's U.S. Feed Operations. The economic climate for the entire agri-business sector continued to be very weak, and this was compounded by depressed prices for commercial market hogs in the first half of the fiscal year, resulting in a struggling swine industry. Another year of unseasonably warm winter weather in the prairie provinces, with little or no snow cover, allowed beef cattle to do more range grazing, reducing the requirement for manufactured feed.



The consolidation of livestock producers that is occurring in the United States market is also taking place in Canada, albeit on a smaller scale. In the swine industry in particular, there has been a movement away from the traditional production model that featured a large number of small-scale independent producers. An increasing proportion of commercial hog production in Canada is being provided by production systems that either are owned by a consortium of investors, or are aligned with other players in the chain of pork production.

These conditions created a highly competitive environment, with feed manufacturers striving to maintain or increase their market share in a relatively static market. Feed-Rite's ability to develop high quality nutrition programs for livestock producers that are both efficient and cost-effective allowed it to be successful in attracting some significant new customers in fiscal 2000, and to retain its existing customers.

Overall, Feed-Rite achieved growth of 4.4 percent in feed sales volume for fiscal 2000, with the two major areas of improvement being in swine and turkey feed products, both of which are up by 16 percent. The volume of feed sales in 2000 for all other livestock species was even with 1999 levels. Sales of feed ingredients and ancillary products were down about 10 percent.

The synergies that have been developed between Feed-Rite and Cotswold by linking swine genetics with nutrition, and the reputation that Feed-Rite has established for the high quality of its swine nutrition programs, have been instrumental in achieving the improvement in swine

feed sales volume. However, in spite of Feed-Rite's increased market share, the commodity prices of feed ingredients continued to be at very low levels, and the highly competitive conditions under which feed manufacturers have been operating kept a lid on feed prices in 2000. Consequently, revenues from feed operations actually decreased this year. The competitive forces in the market resulted in gross profit margins being slightly reduced, and combined with some asset write-down and write-off adjustments, the operating income of the feed operations declined in fiscal 2000.

The operating results of Quality Swine Systems (QSS) were greatly improved in fiscal 2000. QSS was faced with record low prices for commercial hogs in fiscal 1999, and in the first half of fiscal 2000 there was little improvement. A gradual recovery in prices occurred in the second half, and QSS was able to generate much improved figures as a result. An increase of 14 percent in the number of hogs sold in fiscal 2000 and a program resulting in cost reductions and improved operating efficiencies also contributed to QSS being able to perform at better than breakeven levels in the second half. Although QSS finished the year in a loss position, it was nonetheless a considerable improvement on the prior year.

Overall, the Canadian Feed Operations reported an increase in revenue of \$2.7 million, and an improvement in operating income of \$4.5 million, to \$7.2 million in fiscal 2000. The improvement in the performance of QSS was entirely responsible for the turnaround.

p.19 >

▷19

Most of Feed-Rite's production is in the form of a complete feed, which is delivered to customers and can be fed to livestock without further modification.

▷20

Daco Winnipeg and Lethbridge produce premixes, which are sold to producers who mix their own complete feed by adding carbohydrates (grain or corn) and proteins to the premix.

▷21

The expanded dairy feed blending capacity of the Lacombe feed mill (Quality Feeds) has enabled it to service the rapidly growing dairy sector in central Alberta.



## Investments in Facilities and Training

Feed-Rite continued to make significant investments in facilities and training in fiscal 2000 to maintain its position as a leader in Canadian feed manufacturing. The livestock feed market in southeastern Manitoba and northern Minnesota is served by Feed-Rite's mill in Grunthal, Manitoba. With Grunthal's increasing sales volumes and opportunities for additional growth, a decision was made to initiate a significant upgrade of the mill. The existing mill structure was torn down and a new manufacturing facility is in the process of being built on the site. In order to ensure that Feed-Rite will be able to meet the rapidly growing demand for livestock feed, the new mill's capacity will be 50 percent greater, with streamlined production throughput, lower operating costs, and enhanced ability to produce a wider range of high quality feed products. The project is slated for completion in October of 2000.

A major capacity upgrade was also initiated at Feed-Rite's mill in Linden to meet growing customer demand in central Alberta. The upgrade was completed in August of 2000 and the mill now has a second pelleting line, additional load-out bins and a second scale. Capacity has been increased by 50 percent, permitting greater production efficiency and flexibility.

Recognizing that production, sales and support staff play a major role in providing customers with high quality products and service, Feed-Rite also invested in its people. An intensive training program for production staff was implemented in fiscal 2000, with the view that a more comprehensive understanding of overall plant operations by employees would improve productivity. The program covers all aspects of the manufacturing process, including the fundamentals of nutrition, feed mill operations and maintenance, safety and quality assurance. Plans are underway to develop a training program for sales and support staff.

In another initiative undertaken this year, the company sponsored the Capstone Challenge with the University of Manitoba. The program was an interactive case study contest for graduating students in agricultural science. Senior staff of the company volunteered their time to advise participants in the case study, which proved to be a highly successful event. It provides Feed-Rite with the opportunity to present itself as an attractive career choice for graduating students, as well as enhancing the company's ability to identify high calibre new recruits.

Feed-Rite remains committed to ensuring that it supplies its customers with the highest quality products and customer service. To that end, all of Feed-Rite's facilities have received the ISO 9001 quality registration, making it the first company in the North American feed industry to have achieved this recognition. Following this achievement, Feed-Rite has begun to implement HACCP in its facilities.



► 22 & 23  
Richard Fetterley (left) and Greg Jones, Manager of Feed-Rite's Linden, Alberta feed mill, discuss a shipment to a customer. Capacity of the mill was increased by 50 percent this year.

ISO 9001 is a quality management system aimed primarily at detecting and preventing any non-conforming product during production and distribution to the customer. HACCP (Hazard Analysis and Critical Control Points) is an internationally recognized, systematic approach to controlling food safety during the manufacture of food and food products. In the past, concern for food safety has been focused on the production of food for human consumption. New standards of safety now include those segments of the industry further up the food chain that provide inputs to food processors, including the livestock feed industry.

During fiscal 2000, the company completed joint ISO 9001 and HACCP registration at its mills in Mitchell, Ontario and Fort Macleod, Alberta. The other production facilities in the Canadian Feed Operations are also going to be jointly registered. They are presently at various stages of the process, with the expectation that it will be complete by June of 2001.

> > **Outlook for Fiscal 2001**

The Canadian Feed Operations expects that there will be improved economic conditions for livestock production in fiscal 2001, particularly with respect to the swine production sector. The consolidation among livestock producers will continue, and they will ally themselves with feed manufacturers capable of meeting their increasingly sophisticated needs. Ridley's extensive research and development programs, and investments made in the past year to increase production capacity and efficiency, and to assure product quality and safety, will facilitate continued growth in fiscal 2001.

p.21 > >



▷24  
Feed-Rite has demonstrated its commitment to quality by having all of its mills ISO 9001 registered, and the Mitchell and Fort Macleod mills are also HACCP registered.

▷25  
Ridley's scientific nutritional programs promote fast growth, maintain the health of the livestock, and increase the quality of end products such as meat, milk and eggs.



**J S McKee**

Vice-President, General Manager,  
Cotswold Operations

p.22



## Cotswold Operations



**Ridley's** swine breeding and genetics operations are carried out under the name of Cotswold International. Cotswold International is comprised of operating units located in Canada, the United States, the United Kingdom and Germany, as well as a global export sales function, which is centred in the United Kingdom.

Cotswold has developed an international reputation for its breeding capabilities and the excellence of its leading-edge genetics research. The Cotswold sow is very prolific, representing a high level of genetic merit for litter size and lean growth, combined with maximum hybrid vigour and hardiness. The genetically superior Cotswold boar lines are designed to produce a high yield of lean meat with stress resistance and fast growth. Cotswold stock is free of the halothane gene, thereby assuring improved meat quality and better returns for producers and processors.

Cotswold supplies its swine genetics to customers throughout Europe, North America, and Japan. The Company has nucleus herds in the United Kingdom, Canada and Germany, from which it produces and markets its advanced swine genetics. Cotswold has also made franchise arrangements resulting in nucleus populations being established in Japan and the important European Union markets of Italy, Spain, France and Ireland.

Cotswold's last two years of operating results reflect the entire industry's experience of extremely difficult and challenging market conditions, in which producers of commercial market hogs have reported heavy losses. The producers reacted to the weak economics in the swine industry by extending the replacement cycle of their breeding stock, and in many cases, leaving the industry altogether. Consequently, in fiscal year 1999 suppliers of breeding stock, including Cotswold, experienced declining sales volumes, and margins were under significant pressure. The reduced sales volume meant that pigs which would normally be sold for premium prices as breeding stock had to be sold into the commercial slaughter market. As a result, in fiscal 1999 Cotswold reported an operating loss before interest and taxes of \$4.1 million, including about 8 1/2 months of operating results for Cotswold UK and Cotswold Germany, from the date of their acquisition in October 1998.

## > > Progress in fiscal 2000

In fiscal 2000, Cotswold adopted a very aggressive sales and marketing campaign. With commercial market hog producers in financial distress and examining their operations for increased efficiency, the Cotswold sales teams succeeded in winning a number of new large-scale customers, and increasing its market share. A growing number of producers have been convinced that the Cotswold pig delivers the most cost-efficient method of producing high quality pig meat for human consumption. Cotswold was able to demonstrate the superiority of its genetics and the competitive advantage to be gained by using them. Unfortunately, although Cotswold's sales volumes rebounded in fiscal 2000, margins remained extremely slim, as breeding stock companies competed for market share in a shrinking market. This highly competitive environment resulted in one of the most difficult years in Cotswold's history, and Cotswold reported an operating loss before interest and taxes of \$5.9 million in fiscal 2000. This figure includes a full 12 months for the UK and German operations.

Although the earnings performance in the past two years has not been satisfactory, there are a number of reasons for optimism about Cotswold's future. These reasons include improvement in commercial market hog prices, as well as steps that have been taken in fiscal 2000 and plans that Cotswold has made for the coming year.

Prices for commercial market hogs have improved steadily, allowing producers to generate positive returns and to improve their balance sheets. The return to profitability among hog producers has increased the confidence of those still in the business and there are many who are making plans for expansion. The renewed confidence in the industry is beginning to provide attractive growth opportunities for Cotswold. The volume growth achieved in the latter part of fiscal 2000 was a reflection of Cotswold's response to those opportunities. The new customers Cotswold is attracting demonstrate the market's growing recognition of the company's superior swine genetics and commitment to service excellence. We fully expect that volumes will continue to recover in fiscal 2001 and that margins will return to more normal levels.



>26

Ongoing investment in genetic and nutritional research and development continues to place Cotswold at the forefront of pig breeding science.

>27

Cotswold sows are noted for farrowing large litters with subsequent heavy weaning weights. Cotswold pigs are also known for their very desirable carcass traits.

>28

Cotswold USA was established in fiscal 2000, and the sales and marketing team opened its new office in Urbandale, Iowa, in May.

p.23



During fiscal 2000 Cotswold undertook several initiatives that will improve the company's competitiveness and ability to address the needs of the market. Some of the more notable projects were:

- Cotswold USA was established as a separate operating unit in the United States.
- An alliance was formed in October 1999 with Heartland Pork Enterprises (HPE), a Cotswold franchisee and one of North America's largest commercial pork producers. Cotswold USA assumed all sales and marketing responsibilities for Cotswold genetics in the U.S., while HPE agreed to maintain the foundation nucleus, daughter nucleus and multiplication herds from which Cotswold USA will source the genetics. The two parties also agreed to collaborate on research and development projects.
- Cotswold USA has developed a sales and marketing organization structure, staffed the positions, and opened an office in Urbandale, Iowa. The North American market offers a major opportunity for growth, and establishing a separate Cotswold sales and marketing team in the United States will greatly enhance our ability to exploit the opportunity quickly.
- The new Cotswold USA team established a close working relationship with the staff of Hubbard Feeds. A number of synergies were realized in Canada from the cooperative efforts of Feed-Rite and Cotswold Canada and similar synergies can be achieved in

the U.S. Linking genetics with nutrition provides production efficiencies for swine producers and superior pork products for the consumer. The Hubbard Feeds and Cotswold USA organizations are providing mutual support in a number of areas, including the sharing of information on nutrition programs, genetics, research and development, information systems and administration.

- In Germany, Cotswold began expansion of the Titan line of swine genetics. The Titan boar line is characterized as a robust male with very desirable body conformation. It is the world's leanest breed, with a large ham, narrow body and excellent growth rate. This is a highly sought-after line in Germany, and will be marketable as well in Spain, France, Belgium, Portugal, Italy and Greece. Cotswold intends to increase the size of the Titan nucleus in Germany to meet existing demand, as well as to transfer the Titan genetics to North America to develop its market potential here. The Titan line can also be cross-bred with the existing Cotswold genetics to produce breeding stock that will meet the needs of certain specific markets.

- Cotswold's artificial insemination (AI) centres continue to see a significant increase in demand for their product, as the proportion of producers recognizing the benefits of AI continues to grow. By using AI, producers are able to access the very highest level of genetics at a reasonable cost. AI technology is continually being refined, and the incidence of its use in the industry is growing rapidly. During the past year, Cotswold Canada responded to the increased demand by doubling the size of its artificial insemination unit. The Canadian AI centre also secured ISO 9002 registration, helping to give customers assurance that they will receive the highest-quality semen from the best boars.



▷29

Cotswold stock is free of the halothane gene, resulting in improved animal welfare, less stress, and better quality meat on the supermarket shelf.

▷30

The Cotswold division is planning to establish standalone nucleus populations in North America of all the genetic lines that currently are in the United Kingdom.



▷31

One of the staff at Cotswold's R & D unit is shown with a Meishan sow and piglets. The Meishan breed is one of the most prolific in the world.

■ In anticipation of its ability to continue increasing its North American market share, Cotswold Canada converted a third party multiplication site to a nucleus unit, and added two new third party multipliers to its system.

■ Cotswold's Export business unit, located in the United Kingdom, has been making inroads in several export markets. One of the success stories is in Spain, which is becoming a very important swine producing country in the European Union. At a time when producers elsewhere in the EU are reducing their herds, Spanish producers are increasing theirs. As in the rest of the world, the industry in Spain is evolving from individual farmer producers to an industry composed of larger, more integrated operations. Cotswold's business in Spain is expanding in association with two very large integrators. Because they represent a greater opportunity for growth, these integrators are exactly the types of producer on which Cotswold will be focusing for the future.



■ Throughout fiscal 2000, all of Cotswold's business units were engaged in reviewing every aspect of the way in which they conduct their operations, with a view to finding and implementing cost savings. Although the conclusion was reached that the business was already being run in an efficient fashion, the exercise allowed staff to re-examine the rationale for all major expenditures. A number of savings opportunities were identified and implemented.

## > > Plans for 2001

Cotswold achieved its objective for fiscal 2000 of increasing its market share, holding on to its core customer base and recruiting new multipliers and producers to the Cotswold system. This will serve as the base for additional growth and improved financial performance in fiscal 2001. To facilitate that growth and to position itself as a major global swine genetics company, Cotswold will continue to restructure its business in the coming year. Some of the significant projects being undertaken include:

■ Transferring to the Cotswold North American facilities a sustainable nucleus population of all of the existing Cotswold genetics lines. The transfer will provide the company with complete standalone sets of nucleus populations in North America and in Europe. This step will reduce exposure to risk, allow Cotswold to independently develop products to meet specific market requirements on either side of the Atlantic, and generally to serve the North American market more effectively.

■ The Cotswold operations in North America will recruit their own team of geneticists and veterinarians. Research alliances will be developed with universities, independent swine research centres, and with commercial hog production companies.

■ Ridley and Cotswold are working in collaboration with Gensel Biotechnologies Ltd. to develop a technology for the pre-selection of male or female sperm for use in artificial insemination in the swine industry. The project is progressing as expected, and it is anticipated that on-site testing of the technology may begin in 2001. Further discussion of our alliance with Gensel is included in the section on Research & Development.

■ A new third party multiplication herd will be established in Germany, increasing Cotswold's ability to serve the German market in a cost-effective manner, and reducing Cotswold Germany's reliance on production imported from the United Kingdom.

■ Cotswold will explore opportunities to establish one or more artificial insemination stations in Germany, in order to take advantage of the profit potential of the Titan genetics.

■ A new nucleus arrangement will be established in Ireland, replacing the existing agreement. It is expected that the new franchisee will provide Cotswold with a stronger presence in the Irish market, and more potential to grow the business.

Cotswold's mission is to be recognized as the best source of swine genetics for producers around the world. Although the operating results for Cotswold International have been disappointing, we are confident that the steps being taken by the Cotswold team will result in its becoming a force in the world-wide swine genetics business, and fully expect that as these initiatives develop, Cotswold will become an important contributor to Ridley's future success.



2000

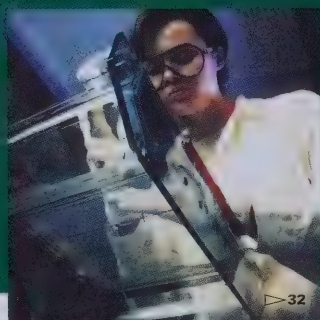
**Ridley** has consistently taken the approach that our extensive research & development program is an essential element by which we differentiate ourselves from our competitors. Our reputation and market success are built on our ability to develop scientifically designed, customized products and programs for our customers.

In our animal feeds businesses, as a result of our ongoing R & D efforts, we are able to offer an optimal balance between ingredient costs and the nutrient needs of each animal species at different life-cycle stages. Developing this ability requires that product formulations be continuously updated, and their effectiveness tested in extensive field trials. The objective is to provide our customers with a range of products that will help them achieve high performance in their herds or flocks, and meet the specifications of processors and the needs of consumers.

In our swine breeding operations, Cotswold has established a worldwide reputation for supplying breeding stock and genetics that deliver the most cost-efficient method of producing high quality pork products for human consumption. Cotswold International is one of the world's foremost suppliers of swine genetics and a leading integrator of technology in the industry. Its research and development strengths have made Ridley a significant force in the global swine genetics industry.

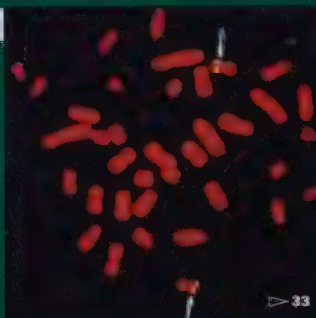
### Formation of New Research Alliances

In fiscal 2000, Ridley's U.S. Operations established two new research alliances with large integrated commercial producers to conduct feed trials for hogs. The first research system consists of a nursery facility in Buffalo Center, Iowa, and two finishing barns situated in Jackson, Minnesota. The barns are outfitted to provide a high degree of flexibility in testing the effectiveness of different feeding programs on test groups of hogs. A second research alliance was established in partnership with another large integrated producer, consisting of two additional swine research systems, located near Nicollet, Minnesota. These new research alliances will provide Ridley with many opportunities for cutting edge, industry-leading research in animal nutrition, growth performance, disease management and meat quality.



32

### Research & Development



33



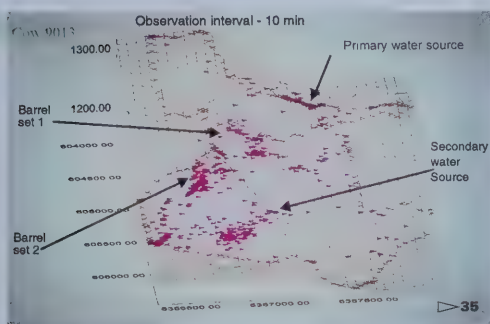
34

On the north side of the border, the Canadian Operations made an investment in Biosearch International Inc., a company established for the purpose of providing swine facilities for conducting independent scientific feed trials. Ridley has a facility use agreement with Biosearch, giving us access to space in the facilities, and providing an opportunity to test different nutritional programs, or the effect of similar nutrition programs on different genetic lines.

## > > Results by the Barrel

Ridley Block Operations participated in a study conducted by a university in the western United States to determine the effect on grazing distribution by placing CRYSTALYX® Brand Supplements low-moisture blocks in foothills rangeland. Three pastures were categorized into four different types of terrain. The cattle were monitored by horseback as well as by using Global Positioning System satellite technology.

Information was gathered through the GPS technology incorporated in electronic monitoring collars on the cattle. The information gathered by the university researchers demonstrated that the blocks were effective in assisting beef producers to maximize their use of pasture and rangeland. The study showed that CRYSTALYX® supplement blocks resulted in improved grass use of up to 40 percent in moderate terrain. On more difficult terrain, grass use was improved by 15 percent to 20 percent. Clearly, CRYSTALYX® Brand Supplements are an effective tool in range grazing management, resulting in more uniform use of forage. An added benefit is that by using our feed supplement blocks, cattle can be drawn away from watering areas, reducing pollution of the water source, and resulting in less erosion of stream banks.



### > 32 & 33

Genome mapping enables scientists to detect individual genes showing variations in traits. Cotswold uses marker gene technology to improve performance traits in its herds.

In another study conducted by a university in the midwestern United States, it was shown that steers consuming low quality forage and provided with CRYSTALYX® BGF-30 supplement had a significantly higher intake and digestion of prairie hay than steers provided with corn as a supplement, or a control group provided with no supplement. A similar study showed that digestible dry matter intake increased by 41 percent over a control group that was provided with no supplement.

CPC Livestock, located near Fountain Run, Kentucky ran a trial using Brigade® low-moisture blocks formulated especially for stressed cattle. The product made a noticeable difference in helping incoming calves to overcome the negative effects of stress, as they made the transition from weaning to CPC's backgrounding lot.

## > > Cotswold Forges Ahead

Cotswold's position as a leading force in swine genetics is largely due to extensive investment in research and development. We are constantly researching new methods that will allow us to develop new products and programs to meet a wide variety of global market requirements, whether in North America, Europe or Asia. Our research is directed to finding methods that will allow faster genetic improvements through a program of technology to identify genes specifically related to litter size, meat quality, resistance to disease and growth rate.

At the cutting edge of technology, Cotswold is currently evaluating new techniques for locating marker genes, with the possibility of faster improvement in our nucleus populations. We have established a DNA library, allowing us to exploit marker gene technology much more quickly, by tracking genes across generations. Currently, we are developing a greater knowledge of the lean tissue growth potential and feed intake of Cotswold populations, allowing us to supply our customers with the best possible nutritional guidance to suit their own conditions.

Ridley is an investor in Gensel Biotechnologies Ltd., a company formed to develop and commercialize a technology for the pre-selection of male or female sperm, for use in artificial insemination. It is a process that involves adding natural antibodies to collected semen. The antibodies bind selectively to female-producing sperm, allowing them to be separated from male sperm. It will allow breeders and producers to pre-select the sex of offspring prior to conception. This technology could revolutionize the way pigs are farmed, significantly reducing the cost of breeding as well as the cost of commercial production.

Ridley and Cotswold are strategic partners with Gensel in development of the technology as it relates to swine. We will team our swine genetic scientists with those of Gensel in pursuing a commercial product, and will provide Gensel with access to our swine breeding facilities for extensive field trials. The research has been progressing as expected, and upon the attainment of certain milestones this year, Ridley made an additional investment in Gensel. Assuming that things continue to go well, Cotswold may be involved in the field testing of the technology some time in 2001, with commercialization being targeted for 2003. Once a commercial product for swine is available, Ridley will have rights to use the technology worldwide for swine breeding, exclusively for the first 18 months, and on a non-exclusive basis after that.

In pursuing our program of research, our in-house geneticists work closely with a team of retained consultants of international reputation, and with a worldwide network of universities and research centres. This global research alliance approach uniquely positions Cotswold International to take the earliest advantage of new developments that can quickly be implemented for the benefit of our customers. We have developed an international science base through our research alliances, placing us close to the leading thinkers in key technologies, and giving us access to all the advances in genetics that may be required to be a leader in the industry.

### > 34

Ridley Block Operations has committed more resources to research, development, and manufacturing of low-moisture blocks than any other manufacturer.

### > 35

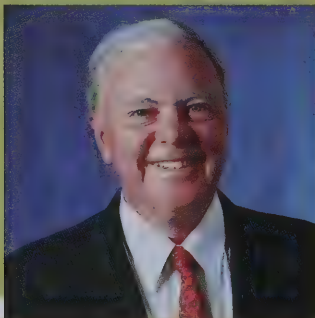
Using GPS satellite technology, university researchers showed that CRYSTALYX® Brand Supplements are an effective tool in range grazing management, resulting in more uniform use of forage.



## Ridley Inc. Board of Directors

### **J S Keniry\***

BSc, PhD, FTSE, FRACI, FAICD  
*Chairman, Age 57*



Director and Chairman since 1997. Director of Ridley Corporation Limited, Australia, since 1990 and its Chairman since March 1994. Formerly held executive positions with leading Australian public companies, CSR Limited and Goodman Fielder Limited. Presently Chairman, National Registration Authority for Agricultural and Veterinary Chemicals; Chairman, Sugar Australia Pty Ltd; President, Australian Chamber of Commerce and Industry; and a Director of a number of other statutory bodies and companies. Member of the (Australian) Prime Minister's Science, Engineering and Innovation Council; Fellow of the Royal Australian Chemical Institute, Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.

### **J C Brown\*\***

BSA, MSc, PAg, FAIC  
*Non-Executive Director, Age 71*



Director since May 1997. Since 1996, Principal, J.C. Brown Consulting Services. Formerly Vice-President, Marketing with Feed-Rite Ltd. and earlier held a senior position with the Canadian Wheat Board. Former National Director of the Agricultural Institute of Canada and Past President of the Manitoba Institute of Agrologists. Now, Executive Director / Registrar, Manitoba Institute of Agrologists. Actively involved in western Canada's agribusiness sector for more than 45 years.

**R L M Dawson\*** MA  
*Non-Executive Director, Age 65*



Director since May 1997. Principal of Fulcrum Associates, a Winnipeg consulting firm specializing in value-added agriculture and sustainable development. Held senior management positions with Cargill Inc. in Europe, South America and Canada, including responsibilities for grain marketing, the feed industry, the seed business, and corporate affairs. Chairman of the Winnipeg Commodity Exchange, 1978. Served on Canada's Agricultural Advisory Committee to the "Uruguay" GATT Round and on the Economic Innovation and Technology Council of Manitoba.

**L J Martin** PhD  
*Non-Executive Director, Age 55*



Director since May 1997. Chief Executive Officer of the George Morris Centre since 1994, formerly Director of Research since its inception in 1990. Previously Professor and Chair, Department of Agricultural Economics and Business, University of Guelph. Served on the Public Advisory Committee on Regulation Review for Agriculture Canada and as Chair, Canadian Agri-Food Competitiveness Council (1991 - 1994). Has extensive experience in competitiveness and trade issues and has facilitated the strategic visioning, planning, and development of strategic alliances for many organizations.

**R G Seldon\***  
*Non-Executive Director, Age 57*



Director since May 1997 and a Director of Ridley Corporation Limited, Australia since December 1990. Chairman of Windsor Farm Foods Group Ltd.; Balfour Wauchope Ltd. and the Australian Horticultural Corporation. A former Director of the Australian Fisheries Management Authority and several public companies. Chairman of Seldon & Associates Pty. Ltd., which provides specialist financial advice and corporate advisory services. Previously Chief Executive of a major U.S. banking subsidiary in Australia. Involved in the merchant banking industry for more than 35 years and has substantial interests in the rural sector including cropping, cattle breeding, and wool production.



## Management's Discussion & Analysis > >

The following discussion and analysis should be read in conjunction with the Company's financial statements which appear on pages 37 to 55 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

### Results of Operations

Ridley Inc. continued to grow in 2000 both internally and through acquisitions. During the year, the Company acquired the ContiGroup Companies' Animal Nutrition Division, Wayne Feeds. This was a significant acquisition for the Hubbard Feeds operation. Results of the acquired operations are

included in the consolidated results from March 31, 2000.

Revenues increased in the Canadian, US and Cotswold operations. Operating income increased in the Canadian operations but declined in the U.S. The continued depressed hog market worldwide negatively impacted the consolidated results of the Company for the year. In addition to losses in the Cotswold Division, the commercial pig production segment, Quality Swine Systems (QSS) of the Canadian Division, also suffered significant losses. Increased market prices for hogs during the second half of the year improved results for Cotswold and QSS.

**M S Mitchell**  
Chief Financial Officer



Other non-operating expenses were incurred during the year relating to asset write-downs and investment write-downs. A significant claim settlement in the amount of \$7,759,000 was received during the year and is noted separately in non-operating income.

The following discussion reviews the current year results and changes from the prior year.

### Divisional Earnings Recap 2000 with 1999 Comparative (\$000s)

|                                                                      | Canadian Division |         | U.S. Division |         | Cotswold Division |         | Unallocated |         | Total   |         |
|----------------------------------------------------------------------|-------------------|---------|---------------|---------|-------------------|---------|-------------|---------|---------|---------|
|                                                                      | 2000              | 1999    | 2000          | 1999    | 2000              | 1999    | 2000        | 1999    | 2000    | 1999    |
| Revenue                                                              | 167,554           | 164,856 | 295,779       | 244,766 | 43,246            | 25,966  | -           | -       | 506,579 | 435,588 |
| Cost of sales                                                        | 140,042           | 142,212 | 227,208       | 181,545 | 35,259            | 21,226  | 49          | (628)   | 402,558 | 344,355 |
| Gross profit                                                         | 27,512            | 22,644  | 68,571        | 63,221  | 7,987             | 4,740   | (49)        | (628)   | 104,021 | 91,233  |
| Operating expenses                                                   |                   |         |               |         |                   |         |             |         |         |         |
| Selling, general and administrative                                  | 17,979            | 17,636  | 41,122        | 33,566  | 10,557            | 6,731   | 2,248       | 2,364   | 71,906  | 60,297  |
| Depreciation                                                         | 1,884             | 1,849   | 6,425         | 5,834   | 1,102             | 836     | 84          | 80      | 9,495   | 8,599   |
| Goodwill amortization                                                | 333               | 348     | 911           | 836     | 313               | 235     | -           | -       | 1,557   | 1,419   |
| Research & development                                               | 77                | 76      | 596           | 348     | 1,944             | 1,103   | 53          | -       | 2,670   | 1,527   |
|                                                                      | 20,273            | 19,909  | 49,054        | 40,584  | 13,916            | 8,905   | 2,385       | 2,444   | 85,628  | 71,842  |
| Divisional operating income (loss)                                   | 7,239             | 2,735   | 19,517        | 22,637  | (5,929)           | (4,165) | (2,434)     | (1,816) | 18,393  | 19,391  |
| Other expense (income)                                               |                   |         |               |         |                   |         |             |         | 2,177   | (3,592) |
| Claims settlement (income)                                           |                   |         |               |         |                   |         |             |         | (7,759) | -       |
| Interest expense                                                     |                   |         |               |         |                   |         |             |         | 10,342  | 6,951   |
| Net income before the following:                                     |                   |         |               |         |                   |         |             |         | 13,633  | 16,032  |
| Income tax                                                           |                   |         |               |         |                   |         |             |         | 7,232   | 7,504   |
| Income before realization of foreign currency translation adjustment |                   |         |               |         |                   |         |             |         | 6,401   | 8,528   |
| Realization of foreign currency translation adjustment               |                   |         |               |         |                   |         |             |         | -       | 5,356   |
| Net earnings                                                         |                   |         |               |         |                   |         |             |         | 6,401   | 13,884  |

## Canadian Division > >

### > > Income from operations

Overview: On a consolidated basis, revenue for 2000 increased by \$71.0 million or 16.3 percent to \$506.6 million compared to \$435.6 million in 1999. Cost of sales increased 16.9 percent or \$58.2 million to \$402.6 million compared to \$344.4 million the previous year. The gross profit for 2000 of \$104.0 million was \$12.8 million or 14 percent higher than the 1999 total of \$91.2 million. As a percentage of revenue, the gross profit decreased from 20.9 percent in 1999 to 20.5 percent in 2000. Total operating expenses, including selling, general and administrative expenses, depreciation and goodwill, amortization, and research and development, were \$85.6 million for the year or \$13.8 million higher than the 1999 total of \$71.8 million. The operating income of Ridley Inc. of \$18.4 million was \$1.0 million less than the \$19.4 million recorded in 1999.

Net income of \$6.4 million was \$2.1 million less than the \$8.5 million earned in 1999 before the realization of the foreign currency translation adjustment. Net income was \$6.4 million compared to \$13.9 million in 1999.

The following discussion of division results provides a more detailed analysis of the changes noted above.

Canadian Division consists of feed mills and commercial hog production operations. Despite unseasonably warm winter weather and a struggling swine industry, sales volume, gross profit, and operating income increased over the previous year.

Operating income of the Canadian Division increased by \$4.5 million or 165 percent in 2000 to \$7.2 million compared to \$2.7 million in 1999.

The increase in income of the Division was due entirely to the improved results of Quality Swine Systems (QSS), the commercial hog production operation. The combination of a recovery in hog market prices and measures taken by QSS to reduce costs, provided an improved result over the previous year. The operating income of the feed operation declined due to some asset write-down and write-off adjustments.

Canadian Division revenue increased by \$2.7 million or 1.6 percent from \$164.9 million in 1999 to \$167.6 million in 2000. QSS sales increased \$7.3 million while feed sales decreased \$4.6 million due to lower commodity price levels. The number of hogs sold by QSS increased over 1999 levels by 14.4 percent and prices per pig increased approximately 12.1 percent. External feed sales volume increased 4.4 percent over 1999 levels. The decline in average sales price per tonne and ingredient cost per tonne experienced in 1999 continued in 2000. The reductions continued to be driven by a decline in the commodity markets for the major feed ingredients. Despite increased volume, overall feed revenue declined. While these commodity fluctuations do impact revenue, they do not impact our ability to manage net income margins.

Cost of sales of the Canadian Division decreased \$2.2 million or 1.5 percent to \$140 million compared to \$142.2 million in 1999. Cost of sales for the QSS operation increased \$2.4 million while feed operation costs declined \$4.6 million. Volume increases in both operations were partially offset by declines in commodity prices.

Gross profit increased by \$4.9 million or 21.5 percent from \$22.6 million in 1999 to \$27.5 million in 2000. As a percentage of revenue, gross profit increased from 13.7 percent in 1999 to 16.4 percent in 2000. The increase was primarily due to the improvement in the hog prices in the second half of 2000. Gross profit on feed operations was flat from the previous year.

Total operating expenses increased \$0.4 million to \$20.3 million compared to \$19.9 million in 1999. Selling, general and administrative expenses increased by 1.9 percent or \$0.3 million from \$17.6 million in 1999 to \$17.9 million in 2000. The increased costs were a result of an increase in professional fees paid and an increase in the bad debt allowance.



## > > **Cotswold Division**

The Cotswold Division consists of swine genetics production in the UK, Germany, U.S. and Canada. Ridley Inc. acquired Cotswold Pig Development Company Limited, with operations in the UK and Germany, in October of 1998 and these operations, together with Cotswold Canada were the basis for the division in the 1999 fiscal year. In October 1999, the division of Cotswold USA was established and is a part of the total operation for fiscal 2000. Fiscal 2000 therefore includes a full year of UK, German and Canadian operations, and a partial year for the U.S., and 1999 includes nine months of the UK and no U.S. operations for the comparative outlined below.

The 2000 revenues of Cotswold Division were \$43.2 million, an increase of \$17.2 million over 1999. The increase is due to the start up of the U.S. operations (\$4.0 million), additional revenue due to a full year for Cotswold UK, Export, and Germany (\$6.8 million), and increase in Canadian operations (\$6.5 million). Canadian operations showed an overall revenue increase of 52 percent. This includes an increase of 27 percent in breeding pigs sold, 52 percent increase in artificial insemination sales volume and a 29 percent increase in the average price for slaughter hogs over the previous year.

Gross profit increased \$3.2 million as a result of the revenue increases described above. The general improvement of pig prices later in the year allowed gross margin improvement. Overall expenses were higher (\$5.0 million) as a result of a full year of operation of the UK and the Cotswold USA start-up. The total year operating loss for fiscal 2000 was \$5.9 million compared to \$4.2 million in 1999.

Significant operating income improvement in the third and fourth quarter was due to stronger market prices which leads to optimism as we enter the new year.

## **U.S. Division** > >

The U.S. Division consists of Hubbard/Wayne Feed Operations and Ridley Low Moisture Block Operations. The Wayne results are included in the operations as of March 31, 2000. While the Wayne operation did not materially impact operating income for the year, revenues and expense variances were noticeable as noted below.

Operating income of the U.S. Division decreased by \$3.1 million or 13.8 percent to \$19.5 million from \$22.6 million in 1999. The decrease was due primarily to higher overhead expenses for Hubbard Feeds and the start-up of Wayne Feeds operations.

Revenue increased \$51.0 million or 20.8 percent to \$295.8 million in 2000 from \$244.8 million in 1999. Sales tonnage increased 27.6 percent. The revenue increase is accounted for by the addition of Wayne Feeds for the fourth quarter of the fiscal year. Exclusive of Wayne, revenues for Hubbard were off slightly from 1999 despite tonnage volume increasing approximately 6 percent. This is attributed to the lower commodity prices as discussed in the Canadian Division review.

Gross profit for 2000 of \$68.6 million was \$5.4 million or 8.5 percent over the 1999 amount of \$63.2 million. Gross profit as a percentage of sales decreased from 25.8 percent in 1999 to 23.2 percent in 2000. The gross margin dollar increase is a result of the addition of Wayne Feeds and increase in sales volume. The reduction in gross margin as a percent of sales is caused by product mix changes and sales of more lower margin complete feeds with the Wayne acquisition.

Selling, general and administrative costs increased by \$7.5 million or 22.5 percent from \$33.6 million in 1999 to \$41.1 million in 2000. Overhead costs were significantly higher than last year due to the addition of Wayne Feeds, higher wages and benefits due to new positions added and significant legal fees incurred to protect a trade name. Overhead reduction will be occurring during the first quarter of the new year as a result of consolidating the Wayne and Hubbard operations.

Due to capital expenditures and the Wayne acquisition during the year, depreciation increased by \$0.6 million to \$6.4 million compared to \$5.8 million in 1999.

Amortization of goodwill increased by \$0.1 million to \$0.9 million compared to \$0.8 million in 1999 as a result of the Wayne acquisition.

Research and development increased \$0.2 million to \$0.6 million from \$0.4 million in 1999 due to new swine research facilities and expanded research efforts.

#### Other Expense.

Other expenses include asset and investment write-offs in the U.S. and Canadian operations during the year. A number of impaired assets were written down to more accurately reflect market values. These expenses are partially offset by interest on loans and advances to third parties, income on investments and interest on accounts receivable. Other (income) expense was \$2.2 million in 2000 and \$(3.6) million in 1999.

#### Claim Settlement.

A claim settlement was received from suppliers in the U.S., resulting in a gain of \$7,759,000.

#### Interest.

Interest expense increased by \$3.4 million or 48.8 percent to \$10.3 million from \$7.0 million in 1999. The increase was due to a higher average loan balance and higher interest rates in 2000 compared to 1999. The average loan balance increased primarily due to the Wayne acquisition made during the year, and the capital expenditure programs.

#### Income Tax.

Income taxes as percentage of net income before tax increased from 46.8 percent in 1999 to 53.0 percent in 2000 due primarily to losses incurred by a subsidiary for which no tax recoveries were recognized.

#### Realization of Cumulative Foreign Currency Translation Adjustment.

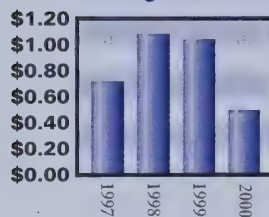
During 1999 Ridley Inc. restructured its net investment in its U.S. operations and, as a result, recognized a realization of its cumulative foreign currency translation adjustment in the amount of \$5.4 million.

#### Net Earnings for the Year.

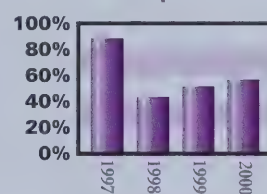
Net earnings for the year decreased by \$7.5 million from \$13.9 million in 1999 to \$6.4 million in 2000. Basic earnings per share for the year of \$0.48 per share were 54 percent less than the \$1.04 achieved in 1999. The weighted average number of shares outstanding was 13,337,500, the same as in 1999.

p.33 >

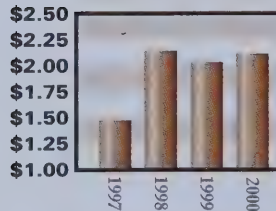
**Earnings Per Share**



**Long-Term Debt to Total Capitalization**

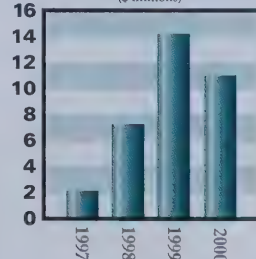


**Cash Flow Per Share**



\*Cash flow generated from operations before changes in non-cash working capital.

**Capital Spending**  
(\$ millions)





## Liquidity and Capital Resources > >

Cash generated from operations, before changes in non-cash working capital balances was \$28.5 million, \$1.4 million higher than the \$27.1 million generated in 1999. Working capital decreased by \$32.3 million to \$30.6 million in 2000 from \$62.9 million in 1999. The current portion of long term debt is primarily the bridge loan associated with the Wayne Feeds acquisition in the amount of \$32.6 million which is to be repaid by December 31, 2000. This accounts for the decrease in working capital. The 2000 current ratio of 1.3 decreased from 2.8 in 1999.

The long term debt increase during the year of \$10.9 million was to fund the balance of the Wayne Feeds acquisition. Cash in the amount of \$53.7 million was paid at close for the acquisition. Capital expenditures for fixed assets during the year were \$11.0 million compared to \$14.1 million in 1999. Capital expenditures were funded by cash generated from operations.

## Risk Management > >

The Company's businesses are subject to a number of risk factors including commodity price, pig price, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulation, and the loss of facilities and inventories from fire and other perils. These risks are mitigated by the Company through a variety of methods.

## Commodity Pricing > >

### Grains and Protein Meals.

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term requirements, the Company maintains inventories of grains and protein meals.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time that they are sold as part of a feed product or pig. The Company is also subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time that they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

### Hogs.

A portion of the Company's revenues is derived from the production and marketing of hogs. As a traded commodity, hog prices fluctuate on an ongoing basis with some seasonal trending. The Company is therefore subject to risk of changing prices over time.

Periodically the Company will mitigate its exposure to fluctuating hog prices through the use of forward sales contracts negotiated with major hog processors or marketing agencies, together with futures and option hedging strategies.

## Seasonality and Weather Conditions

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of feed for cattle increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company manages the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). The Company also sells livestock and farm supplies. It also manages this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

## Interest Rates

The Company finances a portion of its business through the use of a number of long-term credit facilities. Interest rates on these facilities are variable and the Company is therefore subject to some risk of loss as a result of interest rate movement.

The Company believes that the risk of material loss through increases in interest rates over the short term is minimal. The Company has, however, implemented a strategy to hedge interest rates on between 25 percent and 50 percent of the total bank debt outstanding at any time. This strategy utilizes several hedging instruments including interest rate swaps and forward rate agreements. At year-end 50 percent of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to three years.

## Foreign Exchange

The Company's Canadian Division makes some purchases and sales denominated in U.S. dollars. The Division is currently a net seller of U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts where warranted for individually material transactions or the net position.

The Company's U.S. Division, Hubbard Feeds, is considered to be self-sustaining. There are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

The individual operating units within the Cotswold Division conduct the majority of their operations in their local currencies, but have some transactions in U.S. dollars and deutschmarks. Forward exchange contracts are entered into for individually material transactions or where net positions warrant.



## Credit

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized through a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 2.0 percent of the Company's total gross sales. The Company's customer base is also geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns which are either species or regionally based.

## Insurance

The Company has invested significant amounts of capital in manufacturing and distribution facilities and inventory. The Company is subject to a risk of loss and impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental United States, Canada and the UK. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains property loss and business interruption insurance sufficient to cover any foreseeable material loss.

## Outlook

The overall Company results were again impacted significantly by low hog prices. Improvements in hog prices in the second half of 2000 are expected to hold during 2001 which will provide increased margin for both the Cotswold operation and QSS. Feed volumes are expected to increase for both Canadian and U.S. feed operations and low moisture blocks. Large feed grain inventories are expected which should provide historically low ingredient costs and encourage livestock production.

The integration of the Wayne Feeds acquisition in the areas of administrative, sales, and plant rationalization will be completed. We expect to realize significant synergies and profit contributions as a result of these efforts. Funds generated by this consolidation, along with Company earnings and working capital management efforts, will be used to pay down debt levels.

The industry will continue to see consolidation of livestock producers and feed manufacturing facilities. Ridley Inc. continues to put itself in a unique position with our customers by offering customer-oriented sales and marketing programs, advanced research and high quality products.



## Consolidated Financial Statements | June 30, 2000

### Table of Contents

- 38 Management Report
- 39 Auditors' Report
- 40 Consolidated Balance Sheets
- 41 Consolidated Statements of  
Earnings & Retained Earnings
- 42 Consolidated Statements  
of Cash Flows
- 43 Notes to Consolidated  
Financial Statements



## Management Report > >

The accompanying consolidated financial statements of Ridley Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's estimates and judgements. The financial information presented throughout the annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that assets are safeguarded and that the financial records are accurate and reliable.

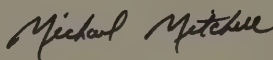
p.38 > The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside, unrelated directors. The Committee meets with management, as well as external auditors, on a regular basis throughout the year to review internal accounting controls, audit results and other financial reporting issues. In addition, the Audit Committee considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors and reviews the consolidated financial statements with management and the external auditors prior to recommending their approval by the Board.

The consolidated financial statements as at June 30, 2000 and 1999 and for the years then ended have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.



R B Gallaway  
President & Chief Executive Officer

August 3, 2000



M E Mitchell  
Chief Financial Officer

# Auditors' Report > >

To the Shareholders of Ridley Inc.

We have audited the consolidated balance sheets of Ridley Inc. as at June 30, 2000 and 1999 and the consolidated statements of earnings and retained earnings and cash flows for the years ended June 30, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Price Waterhouse Coopers LLP*

Chartered Accountants

Winnipeg, Canada  
August 3, 2000

p.39 >



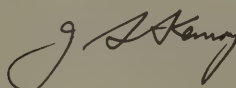
# Consolidated Balance Sheets

(expressed in thousands of dollars) > >

|                                                               | Year ended June 30 |                 |
|---------------------------------------------------------------|--------------------|-----------------|
|                                                               | 2000<br>(\$000)    | 1999<br>(\$000) |
| <b>Assets</b>                                                 |                    |                 |
| <b>Current assets</b>                                         |                    |                 |
| Cash and short-term deposits                                  | 8,345              | 281             |
| Accounts receivable                                           | 50,043             | 46,559          |
| Inventories (Note 3)                                          | 54,653             | 39,756          |
| Income taxes recoverable                                      | 5,674              | 2,406           |
| Prepaid expenses                                              | 2,212              | 2,399           |
| Current portion of loans and advances receivable              | 5,741              | 5,636           |
|                                                               | 126,668            | 97,037          |
| Loans and advances receivable (Note 4)                        | 23,547             | 14,084          |
| Breeding stock                                                | 4,505              | 5,136           |
| Investments                                                   | 1,724              | 6,080           |
| Capital assets (Note 5)                                       | 140,419            | 107,251         |
| Other assets                                                  | 1,359              | 1,077           |
| Goodwill (Note 6)                                             | 73,325             | 54,708          |
|                                                               | 371,547            | 285,373         |
| <b>Liabilities</b>                                            |                    |                 |
| <b>Current liabilities</b>                                    |                    |                 |
| Accounts payable and accrued liabilities                      | 58,186             | 32,954          |
| Due to parent company (Note 7)                                | 22                 | 31              |
| Current portion of long-term debt                             | 37,826             | 1,175           |
|                                                               | 96,034             | 34,160          |
| Long-term debt, less current portion (Note 8)                 | 135,799            | 124,876         |
| Deferred income taxes                                         | 14,055             | 8,672           |
| Pensions and post-retirement benefits (Note 9)                | 3,919              | 3,604           |
|                                                               | 249,807            | 171,312         |
| <b>Shareholders' Equity</b>                                   |                    |                 |
| Share capital (Note 10)                                       | 81,629             | 81,629          |
| Cumulative foreign currency translation adjustments (Note 11) | 2,784              | 1,506           |
| Retained earnings                                             | 37,327             | 30,926          |
|                                                               | 121,740            | 114,061         |
|                                                               | 371,547            | 285,373         |

The accompanying notes constitute an integral part of the consolidated financial statements.

Approved by the Board of Directors

 Director

 Director

# Consolidated Statements of Earnings & Retained Earnings

(expressed in thousands of dollars) > >

|                                                                        | Year ended June 30 |                  |
|------------------------------------------------------------------------|--------------------|------------------|
|                                                                        | 2000<br>(\$'000)   | 1999<br>(\$'000) |
| Revenue                                                                | 506,579            | 435,588          |
| Cost of sales                                                          | 402,558            | 344,355          |
| Gross profit                                                           | 104,021            | 91,233           |
| Operating expenses                                                     |                    |                  |
| Selling, general and administrative                                    | 71,906             | 60,297           |
| Depreciation of capital assets                                         | 9,495              | 8,599            |
| Research and development                                               | 2,670              | 1,527            |
| Interest                                                               | 10,342             | 6,951            |
| Claim settlement (Note 12)                                             | (7,759)            | —                |
| Other expense (income)                                                 | 2,177              | (3,592)          |
|                                                                        | 88,831             | 73,782           |
| Earnings before the following                                          | 15,190             | 17,451           |
| Provision for income taxes (Note 15)                                   |                    |                  |
| Current                                                                | 5,351              | 5,034            |
| Deferred                                                               | 2,324              | 2,885            |
|                                                                        | 7,675              | 7,919            |
| Earnings before realization of foreign currency translation adjustment | 7,515              | 9,532            |
| Realization of foreign currency translation adjustment (Note 11)       | —                  | 5,356            |
| Earnings before goodwill amortization                                  | 7,515              | 14,888           |
| Goodwill amortization net of income taxes of \$443 (1999 - \$415)      | 1,114              | 1,004            |
| Net earnings for the year                                              | 6,401              | 13,884           |
| Earnings per share                                                     |                    |                  |
| Earnings before goodwill amortization – basic                          | \$ 0.56            | \$ 1.11          |
| – diluted                                                              | \$ 0.55            | \$ 1.10          |
| Net earnings for the year – basic                                      | \$ 0.48            | \$ 1.04          |
| – diluted                                                              | \$ 0.47            | \$ 1.03          |
| Retained earnings – Beginning of year                                  | 30,926             | 19,176           |
| Net earnings for the year                                              | 6,401              | 13,884           |
| Dividends                                                              | —                  | (2,134)          |
| Retained earnings - End of year                                        | 37,327             | 30,926           |

The accompanying notes constitute an integral part of the consolidated financial statements.



# Consolidated Statements of Cash Flows

(expressed in thousands of dollars) > >

|                                                                                             | Year ended June 30 |                 |
|---------------------------------------------------------------------------------------------|--------------------|-----------------|
|                                                                                             | 2000<br>(\$000)    | 1999<br>(\$000) |
| <b>Cash from (utilized for)</b>                                                             |                    |                 |
| <b>Operating activities</b>                                                                 |                    |                 |
| Net earnings for the year                                                                   | 6,401              | 13,884          |
| Items not affecting cash ( <i>Note 16</i> )                                                 | 22,134             | 13,216          |
|                                                                                             | 28,535             | 27,100          |
| Net change in non-cash working capital balances<br>related to operations ( <i>Note 16</i> ) | (3,276)            | (13,606)        |
| <b>Net cash from operating activities</b>                                                   | <b>25,259</b>      | <b>13,494</b>   |
| <b>Investing activities</b>                                                                 |                    |                 |
| Proceeds on disposal of capital assets                                                      | 421                | 2,518           |
| Proceeds on disposal of investments                                                         | 2,905              | —               |
| Purchase of capital assets                                                                  | (11,041)           | (14,155)        |
| Purchase of breeding stock                                                                  | —                  | (1,786)         |
| Purchase of investments                                                                     | (166)              | (268)           |
| Purchase of other non-current assets                                                        | (293)              | (752)           |
| Business acquisitions including bank indebtedness assumed ( <i>Note 2</i> )                 | (53,680)           | (29,214)        |
| Decrease in loans and advances receivable                                                   | (3,869)            | (15,145)        |
| Other                                                                                       | 879                | 105             |
| <b>Net cash utilized for investing activities</b>                                           | <b>(64,844)</b>    | <b>(58,697)</b> |
| <b>Financing activities</b>                                                                 |                    |                 |
| Increase in long-term debt ( <i>Note 8</i> )                                                | 48,192             | 43,650          |
| Increase in (repayment of) amount due to parent company                                     | (9)                | 15              |
| Dividends paid                                                                              | (534)              | (1,600)         |
| <b>Net cash from financing activities</b>                                                   | <b>47,649</b>      | <b>42,065</b>   |
| <b>Increase (decrease) in cash and short-term deposits</b>                                  | <b>8,064</b>       | <b>(3,138)</b>  |
| <b>Net cash and short-term deposits – Beginning of year</b>                                 | <b>281</b>         | <b>3,419</b>    |
| <b>Net cash and short-term deposits – End of year</b>                                       | <b>8,345</b>       | <b>281</b>      |

The accompanying notes constitute an integral part of the consolidated financial statements.

p.42 >

# Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars) > >

June 30, 2000

## 1 Significant accounting policies and basis of presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which require the Company to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. Actual results could differ from these estimates.

### Basis of consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and all controlled entities.

### Revenue recognition

Revenue reflects sales of livestock feed, animal health supplies, livestock and farm supplies and equipment. Revenue from product sales is recorded on shipment.

### Inventories

Inventories are recorded at the lower of weighted average cost and net realizable value.

### Breeding stock

Breeding stock is recorded at the lower of cost and net realizable value.

### Investments

Investments represent investments in non-related corporations and are accounted for at cost.

### Capital assets and depreciation

Capital assets are recorded at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis at the following annual rates:

|                                  |               |
|----------------------------------|---------------|
| Buildings                        | 40 years      |
| Machinery and equipment          | 10 – 30 years |
| Computer equipment               | 3 – 5 years   |
| Furniture and fixtures           | 10 years      |
| Trucks, trailers and automobiles | 5 – 10 years  |

### Goodwill

Goodwill is amortized on a straight-line basis over an estimated useful life of 40 years. The Company reviews the carrying value of goodwill to determine if it has been permanently impaired. The measurement of possible impairment is based primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis.

### Other assets

Other assets include deferred financing and start-up costs, and licensing fees that are recorded at cost. Amortization of deferred financing costs is provided on a straight-line basis over the term of the related debt. Amortization of the breeding license is provided on a straight-line basis over the term of the license. Amortization of start-up costs is provided on a straight-line basis over periods of up to five years.

### Income taxes

Income taxes are accounted for on the tax allocation basis. Under this basis, differences between the time of including revenue and expense items in the computation of accounting income and the time of their inclusion in the computation of taxable income give rise to deferred income taxes.

In the first quarter of 2001 the Company will adopt the liability method as required by the new Canadian Institute of Chartered Accountants standard. The standard will be applied retroactively, however comparative financial information will not be restated. The debit that will be made to retained earnings as at June 30, 2000 is estimated to be \$7,500,000.

p.43 > >

**Foreign operations**

The accounts of self-sustaining foreign subsidiary companies are translated into Canadian dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these foreign operations is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

**Foreign currency transactions and balances**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences on these items are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

**Other income**

Other income consists primarily of gains and losses on disposal of capital assets, interest on loans and advances made to third parties with which the Company has trading relationships, interest on overdue accounts receivable and income on investments.

**Employee future benefits**

The Company maintains both defined benefit and defined contribution pension plans. The pension expense for the defined benefit plans is determined by actuarial valuations of pension plan assets and obligations, using the projected benefit method. Current service costs are charged to earnings as they accrue, while past service amounts, experience gains and losses, and adjustments arising from plan amendments or changes in assumptions, are amortized to earnings on a straight-line basis over the expected average remaining service lives of plan members. For the defined contribution plans, the pension expense is the annual funding contribution required under the plans.

The Company provides health care benefits for eligible retired employees and their covered dependants. The Company accrues for these benefits over the period in which employees provide service to the date of their first eligibility for such benefits.

Commencing with the first quarter of 2001, the Company will adopt the new Canadian Institute of Chartered Accountants standard requiring all employee future benefits to be accounted for on an accrual basis. The effect is not expected to be material to the financial statements.

**Earnings per share**

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

Fully diluted earnings per share are calculated using the daily weighted average number of shares that would have been outstanding at the year end date had all of the stock options issued by the Company been exercised at the later of the beginning of the year and when granted. Imputed earnings of \$192,626 have been calculated on the proceeds from the exercise of stock options using a 3.87% after-tax rate of return.

**Stock option plan**

The Company has a stock option plan which is described in Note 10. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.



# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

## 2 Business acquisitions

On March 31, 2000, the Company purchased the animal nutrition business of ContiGroup Companies, Inc. ("Wayne Feeds"), for an aggregate consideration of \$53,680,000. Wayne Feeds has been integrated into the U.S. Feed Division.

In 1999, the Company acquired Cotswold Pig Development Company Limited ("Cotswold UK") in the United Kingdom, and the operating assets of Gringer Feed and Grain, Inc. ("Gringer") in the United States, and Macleod Feed Mill Ltd. ("Macleod") in Canada for aggregate consideration of \$19,117,519.

These acquisitions were accounted for using the purchase method of accounting and accordingly, these financial statements include the results of operations of the acquired businesses from the dates of acquisition. Details of the net assets acquired on the basis of fair value and the consideration given were as follows:

|                                          | 2000<br>(\$000) | 1999<br>(\$000) |
|------------------------------------------|-----------------|-----------------|
| <b>Assets</b>                            |                 |                 |
| Accounts receivable                      | 13,712          | 3,774           |
| Inventory                                | 14,373          | 3,015           |
| Income taxes recoverable                 | —               | 12              |
| Prepaid expenses                         | 148             | 11              |
| Breeding stock                           | —               | 808             |
| Investments                              | —               | 38              |
| Capital assets                           | 35,145          | 9,921           |
| Loans and advances receivable            | 5,540           | —               |
| Intangible assets                        | —               | 385             |
| Goodwill                                 | 19,960          | 16,432          |
|                                          | 88,878          | 34,396          |
| <b>Liabilities</b>                       |                 |                 |
| Bank indebtedness                        | —               | 10,097          |
| Accounts payable and accrued liabilities | 35,198          | 5,182           |
|                                          | 35,198          | 15,279          |
|                                          | 53,680          | 19,117          |
| <b>Consideration</b>                     |                 |                 |
| Cash                                     | 53,680          | 19,117          |

Details of the businesses acquired are as follows:

| Name                     | Nature of Business | Date Acquired    | % of Voting Shares Acquired |
|--------------------------|--------------------|------------------|-----------------------------|
| <b>2000 acquisition</b>  |                    |                  |                             |
| Wayne Feeds              | Livestock feed     | March 31, 2000   | <sup>(1)</sup>              |
| <b>1999 acquisitions</b> |                    |                  |                             |
| Cotswold UK              | Swine genetics     | October 9, 1998  | 100%                        |
| Gringer                  | Livestock feed     | October 30, 1998 | <sup>(1)</sup>              |
| Macleod                  | Livestock feed     | July 10, 1998    | <sup>(1)</sup>              |

<sup>(1)</sup> Not applicable, asset acquisition.

p.45 >

# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

## 3 Inventories

|                     | 2000<br>(\$000) | 1999<br>(\$000) |
|---------------------|-----------------|-----------------|
| Raw materials       | 22,043          | 15,728          |
| Finished goods      | 19,426          | 10,878          |
| Livestock inventory | 13,184          | 13,150          |
|                     | 54,653          | 39,756          |

## 4 Loans and advances receivable

The Company has entered into certain loans and collateral agreements with third parties. The loans bear interest at various rates and have various maturity dates.

## 5 Capital assets

|                                  | 2000<br>(\$000) |                             |                   |
|----------------------------------|-----------------|-----------------------------|-------------------|
|                                  | Cost            | Accumulated<br>Depreciation | Net Book<br>Value |
| Land                             | 9,092           | —                           | 9,092             |
| Buildings                        | 59,210          | 5,162                       | 54,048            |
| Machinery and equipment          | 80,967          | 14,284                      | 66,683            |
| Computer equipment               | 3,154           | 2,047                       | 1,107             |
| Furniture and fixtures           | 3,832           | 1,610                       | 2,222             |
| Trucks, trailers and automobiles | 9,480           | 4,112                       | 5,368             |
| Construction in progress         | 1,899           | —                           | 1,899             |
|                                  | 167,634         | 27,215                      | 140,419           |
|                                  | 1999<br>(\$000) |                             |                   |
|                                  | Cost            | Accumulated<br>Depreciation | Net Book<br>Value |
| Land                             | 4,067           | —                           | 4,067             |
| Buildings                        | 45,806          | 3,765                       | 42,041            |
| Machinery and equipment          | 55,386          | 10,182                      | 45,204            |
| Computer equipment               | 2,677           | 1,526                       | 1,151             |
| Furniture and fixtures           | 2,934           | 1,036                       | 1,898             |
| Trucks, trailers and automobiles | 6,913           | 2,545                       | 4,368             |
| Construction in progress         | 8,522           | —                           | 8,522             |
|                                  | 126,305         | 19,054                      | 107,251           |

p.46 >

# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

## 6 Goodwill

|                          | 2000<br>(\$000) | 1999<br>(\$000) |
|--------------------------|-----------------|-----------------|
| Goodwill                 | 77,431          | 57,314          |
| Accumulated amortization | (4,106)         | (2,606)         |
|                          | 73,325          | 54,708          |

## 7 Due to parent company

The amount due to Ridley Corporation Limited is comprised of unreimbursed corporate expenses incurred on behalf of the Company and has no specific terms of repayment.

## 8 Long-term debt

|                                    | 2000<br>(\$000) | 1999<br>(\$000) |
|------------------------------------|-----------------|-----------------|
| Non-revolving term credit facility | 128,991         | 64,891          |
| Revolving term credit facilities   | 44,220          | 59,571          |
| Promissory note payable            | —               | 1,098           |
| Mortgages payable                  | 414             | 475             |
| Chattel mortgage payable           | —               | 16              |
|                                    | 173,625         | 126,051         |
| Less: Current portion              | 37,826          | 1,175           |
|                                    | 135,799         | 124,876         |

### Non-revolving term credit facilities

As at June 30, 2000, the non-revolving term credit facilities consist of the following:

- a) A facility authorized up to \$10,000,000 (or U.S. \$5,000,000 with remainder to be drawn in Canadian dollars) (1999 – \$10,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the bank's prime rate in Canada, Bankers Acceptances, London Interbank Offer Rate or the U.S. base rate. As at June 30, 2000, the weighted average effective cost of borrowing, including the applicable margin, was 7.72% (1999 – 6.095%).

As at June 30, 2000, \$10,000,000 (1999 – \$10,000,000) was outstanding on this facility, denominated in Canadian dollars.

- b) A facility authorized up to U.S. \$37,600,000 (1999 – U.S. \$37,600,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Interbank Offer Rate or the U.S. base rate.

As at June 30, 2000, U.S. \$37,600,000 (1999 – U.S. \$37,600,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 8.398% (1999 – 5.775%).

- c) A facility authorized up to U.S. \$10,000,000 (1999 – U.S. \$10,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Interbank Offer Rate or the U.S. base rate.

As at June 30, 2000, U.S. \$10,000,000 (1999 – nil) was outstanding and the weighted average effective cost of borrowing, including the applicable margin was 8.808% (1999 – nil).



- d) A facility authorized up to £7,010,000 (1999 – nil) pounds sterling. Interest rates on the facility may be fixed for varying periods based on the London Interbank Offer Rate. As at June 30, 2000, £7,010,000 (1999 – nil) pounds sterling was outstanding and the weighted average effective cost of borrowing, including the applicable margin was 8.509% (1999 – nil).

The term credit facilities are repayable in 19 quarterly principal instalments of \$250,000 Canadian dollars, U.S. \$1,297,150 and £175,250 commencing January 1, 2001 with a final payment of the balance of principal and interest due on October 1, 2005.

- e) A facility authorized up to U.S. \$22,000,000 (1999 – nil). Interest rates on the facility may be fixed for varying periods based on the bank's U.S. dollar base rate or the London Interbank Offer Rate. As at June 30, 2000, the weighted average effective cost of borrowing, including the applicable margin was 8.753% (1999 – nil). The facility must be repaid in full on or before December 31, 2000.

As at June 30 2000, U.S. \$22,000,000 (1999 – nil) was outstanding on this facility.

#### Revolving term credit facilities

As at June 30, 2000, the revolving term credit facilities consist of the following:

- a) A facility authorized up to \$30,000,000 or the U.S. dollar equivalent (1999 – \$30,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the bank's prime rate in Canada, Bankers Acceptances, London Interbank Offer Rate or the U.S. base rate. As at June 30, 2000, the weighted average effective cost of borrowing, including the applicable margin, was 7.887% (1999 – 5.822%).

As at June 30, 2000, \$14,430,362 (1999 – \$23,956,868, of which \$7,956,868 was denominated in Canadian dollars and £7,010,000 denominated in pounds sterling) was outstanding on this facility.

The revolving term credit facility expires on August 17, 2001 and is extendible annually at the bank's option.

- b) A facility authorized up to U.S. \$20,000,000 (1999 – U.S. \$20,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the bank's U.S. dollar base rate or the London Interbank Offer Rate. As at June 30, 2000, the weighted average effective cost of borrowing, including the applicable margin, was 8.798% (1999 – 5.549%).

As at June 30, 2000, U.S. \$3,000,000 (1999 – U.S. \$17,600,000) was outstanding on this facility.

The revolving term credit facility expires on August 17, 2001 and is extendible annually at the bank's option.

- c) A facility authorized up to £6,000,000 (1999 – £5,000,000) pounds sterling. Interest rates on the facility may be fixed for varying periods based on the London Interbank Offer Rate. As at June 30, 2000, the weighted average effective cost of borrowing, including the applicable margin, was 8.26% (1999 – 5.795%).

As at June 30, 2000, £6,000,000 (1999 – £4,365,760) pounds sterling was outstanding on this facility.

The revolving term credit facility expires on August 17, 2001 and is extendible annually at the bank's option.

- d) A facility authorized up to U.S. \$8,000,000 (1999 – nil). At the company's option, the interest rates on the facility may be fixed for varying periods based on the bank's U.S. dollar base rate or the London Interbank Offer Rate. As at June 30, 2000, the weighted average effective cost of borrowing, including the applicable margin, was 8.503% (1999 – nil).

As at June 30, 2000, U.S. \$8,000,000 (1999 – nil) was outstanding on this facility.

The revolving term credit facility expires on August 17, 2001 and is extendible annually at the bank's option.

# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars)

> >

## Other credit facilities

The mortgages payable bear interest at rates varying from 7.00% - 9.50% and have blended monthly payments of approximately \$8,500.

As at June 30, 2000 and June 30, 1999, a general assignment of book debts, a general security agreement over all property, a demand debenture for \$50,000,000 supported by a first fixed and floating charge over all property and a collateral mortgage on certain land and buildings are pledged as collateral for the bank facilities. As at June 30, 2000, the Company has also hypothecated all issued shares of Cotswold Pig Development Company Limited as collateral for the bank facilities.

As at June 30, 2000, the aggregate amount of principal payments estimated in each of the next five years and thereafter was as follows:

|               | (\$000) |
|---------------|---------|
| June 30, 2001 | 37,826  |
| 2002          | 54,549  |
| 2003          | 10,338  |
| 2004          | 10,338  |
| 2005          | 10,337  |
| Thereafter    | 50,237  |

## 9 Pensions and post-retirement benefits

|                                | 2000<br>(\$000) | 1999<br>(\$000) |
|--------------------------------|-----------------|-----------------|
| Long-term pension liabilities  | 2,328           | 2,321           |
| Other post-retirement benefits | 1,591           | 1,283           |
|                                | 3,919           | 3,604           |

p.49 >

The Company has non-contributory defined benefit pension plans covering certain hourly and salaried employees. The actuarially determined present values of accrued pension benefits at June 30, 2000 is \$10,887,659 (1999 – \$10,516,246) and the value of the pension fund assets as at June 30, 2000 is \$8,752,551 (1999 – \$8,038,631).

As at June 30, 2000, the Company has provided, for accounting purposes, \$2,328,451 (1999 – \$2,320,559) in the financial statements to meet the actuarially calculated net liability of the pension plan.

## 10 Share capital

|                                              | 2000<br>(\$000) | 1999<br>(\$000) |
|----------------------------------------------|-----------------|-----------------|
| Authorized                                   |                 |                 |
| Unlimited number of common shares            |                 |                 |
| Issued                                       |                 |                 |
| 13,337,500 common shares (1999 – 13,337,500) | 81,629          | 81,629          |

After August 8, 1998 and prior to August 8, 2002, Ridley Corporation Limited has the right to subscribe for additional common shares in order to maintain a percentage ownership interest in the Company that is equal to the lesser of 60% and the percentage held by Ridley Corporation Limited as at August 8, 1998.

# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

## Stock Option Plan

Under the terms of the Company's Stock Option Plan, approved by shareholders at the Annual and Special Meeting of shareholders on November 6, 1998, options to purchase common shares of the Company may be granted by the Board of Directors or the Compensation Committee of the Board, to directors, officers, employees and service providers of the Company or its affiliates or subsidiaries. The Stock Option Plan provides that the aggregate number of common shares which may be reserved for issuance under the Stock Option Plan cannot exceed 10% of the common shares of the Company then outstanding.

|                                                  | 2000      |                                       | 1999     |                                       |
|--------------------------------------------------|-----------|---------------------------------------|----------|---------------------------------------|
|                                                  |           | Weighted<br>average<br>exercise price |          | Weighted<br>average<br>exercise price |
| Stock options outstanding<br>– beginning of year | 356,000   | \$10.65                               | –        | –                                     |
| Changes pursuant to                              |           |                                       |          |                                       |
| Options granted                                  | 403,000   | \$6.50                                | 376,000  | \$10.65                               |
| Options cancelled                                | (110,000) | \$8.39                                | (20,000) | \$10.65                               |
| Options exercised                                | –         | –                                     | –        | –                                     |
| Stock options outstanding<br>– end of year       | 649,000   | \$8.46                                | 356,000  | \$10.65                               |

The following stock options to purchase common shares were outstanding as at June 30, 2000:

| Date granted  | Exercise price | Expiry date   | Number outstanding |
|---------------|----------------|---------------|--------------------|
| Sept. 3, 1998 | \$10.65        | Sept. 3, 2004 | 306,000            |
| Dec. 1, 1999  | \$6.50         | Nov. 30, 2005 | 343,000            |
|               |                |               | 649,000            |

The options granted on September 3, 1998 vest over a three-year period beginning September 3, 2000. The options issued December 1, 1999 vest on December 1, 2001, subject to the terms and conditions set out in the stock option agreement.

## 11 Cumulative foreign currency translation adjustments

The cumulative foreign currency translation adjustment account reflects the net changes in the respective book values of the Company's investments in self-sustaining U.S. and U.K. operations due to exchange rate fluctuations since the respective dates of acquisition.

|                                                                                                                                            | 2000<br>(\$000) | 1999<br>(\$000) |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Balance – beginning of year                                                                                                                | 1,506           | 5,811           |
| Effect of exchange rate variation on translation of net assets<br>of self-sustaining foreign operations                                    | 816             | (123)           |
| Effect of exchange rate variation on translation of items designated<br>as hedges of net investments in self-sustaining foreign operations | 462             | 1,174           |
| Portion included in income as a result of reductions in net investments<br>in self-sustaining foreign operations                           | –               | (5,356)         |
| Balance - end of year                                                                                                                      | 2,784           | 1,506           |



# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars)



## 12 Claim settlement

A claim settlement was received from suppliers in the U.S. resulting in a gain of \$7,759,000.

## 13 Financial instruments

### Fair value of financial instruments

The carrying value of the Company's recognized financial instruments which include cash, accounts receivable, loans and advances receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt approximate their fair value.

### Credit risk

The Company, in the normal course of business, is exposed to credit risk from its customers. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable and loans receivable.

Accounts receivable are primarily short-term receivables from customers which arise in the normal course of business. The Company performs regular credit evaluations on all of its customers.

### Interest rate risk

The Company also enters into derivative financial instruments in order to hedge its risk against interest rate fluctuations. The Company has fixed its variable rate long-term borrowing obligations with the following outstanding interest rate swap agreements:

|                                   |                    | 2000<br>(\$000)  |                      |                     |
|-----------------------------------|--------------------|------------------|----------------------|---------------------|
|                                   | Notional<br>amount | Interest<br>rate | Term of<br>agreement | Repricing<br>period |
| Interest rate swap                | \$ 5,000,000 U.S.  | 6.47%            | November 8, 2001     | 3 months            |
| Interest rate swap                | \$ 2,500,000 U.S.  | 6.48%            | November 17, 2001    | 3 months            |
| Interest rate swap                | \$17,600,000 U.S.  | 6.60%            | January 26, 2002     | 3 months            |
| Interest rate swap                | \$10,000,000 U.S.  | 5.73%            | October 21, 2000     | 3 months            |
| Interest rate swap <sup>(1)</sup> | \$10,000,000 U.S.  | 7.28%            | July 26, 2001        | 3 months            |
| Interest rate swap <sup>(1)</sup> | \$10,000,000 U.S.  | 7.38%            | October 21, 2002     | 3 months            |
| Interest rate swap                | \$10,000,000 Cdn.  | 5.47%            | January 8, 2001      | 3 months            |
| Interest rate swap <sup>(1)</sup> | \$10,000,000 Cdn.  | 6.46%            | January 8, 2003      | 3 months            |
| Interest rate swap                | £ 4,500,000 U.K.   | 7.07%            | June 29, 2003        | 3 months            |

<sup>(1)</sup> The interest rate swap agreement was entered into on June 22, 2000 and commences subsequent to June 30, 2000.

### Foreign exchange risk

The Company entered into forward foreign exchange contracts to hedge future sales denominated in foreign currencies. The terms of the foreign exchange contracts are less than one year. As at June 30, 2000, the Company had contracted to sell U.S. \$445,000 at a Canadian equivalent of \$644,646.

The Company manages a foreign exchange exposure on its net investment in Cotswold UK through a loan denominated in pounds sterling. The exchange gain arising on translation of this loan of \$462,070, has been offset against the exchange loss arising on translation of the financial statements of Cotswold UK which has been recorded in the cumulative foreign currency translation adjustments component of shareholders' equity.

The term of the loan is to August 17, 2001 and is renewable annually thereafter at the bank's option.

The fair values of the interest rate swaps and forward foreign exchange contracts are not significantly different from the face value.

p.51 >

**14 Commitments and contingencies**

As at June 30, 2000, the Company was committed to making payments as follows:

|               | Operating<br>leases<br>(\$000) | Management<br>fees <sup>(1)</sup><br>(\$000) | Livestock<br>purchase<br>commitments <sup>(2)</sup><br>(\$000) |
|---------------|--------------------------------|----------------------------------------------|----------------------------------------------------------------|
| June 30, 2001 | 4,480                          | 4,957                                        | 8,619                                                          |
| 2002          | 3,163                          | 4,441                                        | 5,343                                                          |
| 2003          | 1,851                          | 3,240                                        | 3,808                                                          |
| 2004          | 969                            | 2,063                                        | 2,383                                                          |
| 2005          | 471                            | 1,348                                        | 1,433                                                          |
| Thereafter    | 1,412                          | 2,412                                        | 184                                                            |

<sup>(1)</sup>The Company contracts with third party producers pursuant to various swine management, grow-out and feeding agreements. Under the terms of the agreements, livestock owned by the Company is managed and maintained in the producers' facilities for which the Company pays the producer a management fee.

<sup>(2)</sup>The Company contracts with third party producers pursuant to various weanling supply agreements. Under the terms of the agreement, all livestock raised by the producer must be delivered to the Company at a price specified in the agreement.

**Guarantees**

The Company has undertaken to guarantee the debts and obligations of various customers. As at June 30, 2000, these guarantees total \$598,600 Canadian dollars and U.S. \$1,906,233.

**Legal actions**

The Company has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defence of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

**15 Income taxes**

The provision for income taxes reflects an effective tax rate which differs from the combined tax rate for Canadian federal and provincial corporate tax rates for the following reasons:

|                                                                          | 2000<br>(\$000) | 1999<br>(\$000) |
|--------------------------------------------------------------------------|-----------------|-----------------|
| Earnings before income taxes                                             | 15,190          | 17,451          |
| Combined statutory tax rate                                              | 41.7%           | 41.7%           |
| Tax payable based on statutory rate                                      | 6,334           | 7,277           |
| Non-allowable expenses                                                   | 847             | 563             |
| Effect of foreign income tax rates and foreign deductions                | (2,136)         | (1,127)         |
| Effect of current year operating losses not recognized                   | 2,616           | 1,100           |
| Other                                                                    | 14              | 106             |
| Provision for income taxes before tax benefit from goodwill amortization | 7,675           | 7,919           |
| Tax benefit from goodwill amortization                                   | (443)           | (415)           |
| Net provision for income taxes                                           | 7,232           | 7,504           |

Wholly-owned subsidiaries of the Company have cumulative non-capital losses of \$828,112 Canadian dollars and £5,260,000 pounds sterling. Canadian losses begin to expire in 2003. Losses incurred in the United Kingdom may be carried forward indefinitely.

# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

## 16 Statement of cash flows disclosures

|                                                     | 2000<br>(\$000) | 1999<br>(\$000) |
|-----------------------------------------------------|-----------------|-----------------|
| <b>Earnings items not affecting cash</b>            |                 |                 |
| Amortization                                        | 1,952           | 1,425           |
| Depreciation of fixed assets                        | 9,495           | 8,599           |
| Loss (gain) on sale of fixed assets                 | 1,870           | (919)           |
| Gain on sale of breeding stock                      | —               | (2)             |
| Loss on sale of investments                         | 2,650           | —               |
| Increase in pension and post-retirement liabilities | 295             | 176             |
| Deferred income taxes                               | 5,253           | 3,355           |
| Diminution in value of breeding stock               | 619             | 582             |
|                                                     | <b>22,134</b>   | <b>13,216</b>   |

The following amounts comprise the net change in non-cash working capital balances included in the statement of cash flows:

|                                      | 2000<br>(\$000) | 1999<br>(\$000) |
|--------------------------------------|-----------------|-----------------|
| <b>Cash generated (utilized) by:</b> |                 |                 |
| Accounts receivable                  | 8,743           | (4,344)         |
| Inventories                          | (54)            | (1,374)         |
| Prepaid expenses                     | 372             | (533)           |
| Accounts payable                     | (9,059)         | (6,996)         |
| Income taxes recoverable             | (3,278)         | (359)           |
|                                      | <b>(3,276)</b>  | <b>(13,606)</b> |

The following amounts were paid on account of interest and taxes:

|              | 2000<br>(\$000) | 1999<br>(\$000) |
|--------------|-----------------|-----------------|
| Interest     | 9,250           | 5,875           |
| Income taxes | 5,531           | 4,949           |

## 17 Segmented information

The company operates three segments which have been segregated on the basis of geographic regions, and products and services provided.

The Canadian Division manufactures and distributes livestock feed to customers primarily in the prairie region. The products include a full range of complete feeds and supplements and are marketed directly to agricultural producers. The Canadian Division also operates a market hog operation which utilizes feed products from the feed milling operation to finish hogs for commercial slaughter. Revenue attributable to hog sales is \$33,632,089 (1999 - \$26,281,073).

The U.S. Division manufactures and distributes livestock feed to customers primarily in the U.S. Midwest. The products include a full range of complete feeds and supplements and are marketed both through a dealership network as well as directly to agricultural producers.

The Cotswold Division is engaged in the development and sale of swine genetics. The division operates through subsidiaries in Canada, the United Kingdom and Germany. Revenues are derived through the sale of hogs, royalty fees for genetics and franchise fees.

The Company evaluates performance based on earnings before interest and income taxes.

p.53 >



# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

An analysis of segment information is as follows:

|                                                        | Canadian<br>Division |                 | U.S.<br>Division |                 | Cotswold<br>Division |                 | Unallocated     |                 | Total           |                 |
|--------------------------------------------------------|----------------------|-----------------|------------------|-----------------|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                                        | 2000<br>(\$000)      | 1999<br>(\$000) | 2000<br>(\$000)  | 1999<br>(\$000) | 2000<br>(\$000)      | 1999<br>(\$000) | 2000<br>(\$000) | 1999<br>(\$000) | 2000<br>(\$000) | 1999<br>(\$000) |
| Revenue                                                | 167,554              | 164,856         | 295,779          | 244,766         | 43,246               | 25,966          | —               | —               | 506,579         | 435,588         |
| Cost of sales                                          | 140,042              | 142,212         | 227,208          | 181,545         | 35,259               | 21,226          | 49              | (628)           | 402,558         | 344,355         |
| Gross profit                                           | 27,512               | 22,644          | 68,571           | 63,221          | 7,987                | 4,740           | (49)            | 628             | 104,021         | 91,233          |
|                                                        | 16.4%                | 13.7%           | 23.2%            | 25.8%           | 18.5%                | 18.3%           |                 |                 | 20.5%           | 20.9%           |
| Operating expenses                                     |                      |                 |                  |                 |                      |                 |                 |                 |                 |                 |
| Selling, G&A                                           | 17,979               | 17,636          | 41,122           | 33,566          | 10,557               | 6,731           | 2,248           | 2,364           | 71,906          | 60,297          |
| Depreciation                                           | 1,884                | 1,849           | 6,425            | 5,834           | 1,102                | 836             | 84              | 80              | 9,495           | 8,599           |
| Goodwill amortization                                  | 333                  | 348             | 911              | 836             | 313                  | 235             | —               | —               | 1,557           | 1,419           |
| Research & development                                 | 77                   | 76              | 596              | 348             | 1,944                | 1,103           | 53              | —               | 2,670           | 1,527           |
|                                                        | 20,273               | 19,909          | 49,054           | 40,584          | 13,916               | 8,905           | 2,385           | 2,444           | 85,628          | 71,842          |
| EBIT                                                   | 7,239                | 2,735           | 19,517           | 22,637          | (5,929)              | (4,165)         | (2,434)         | (1,816)         | 18,393          | 19,391          |
| Other expense (income)                                 |                      |                 |                  |                 |                      |                 |                 |                 | 2,177           | (3,592)         |
| Claims settlement (income)                             |                      |                 |                  |                 |                      |                 |                 |                 | (7,759)         | —               |
| Interest expense                                       |                      |                 |                  |                 |                      |                 |                 |                 | 10,342          | 6,951           |
| Net earnings before the following                      |                      |                 |                  |                 |                      |                 |                 |                 | 13,633          | 16,032          |
| Provision for income taxes (Note 15)                   |                      |                 |                  |                 |                      |                 |                 |                 | 7,232           | 7,504           |
| Realization of foreign currency translation adjustment |                      |                 |                  |                 |                      |                 |                 |                 | —               | (5,356)         |
| Net earnings for the year                              |                      |                 |                  |                 |                      |                 |                 |                 | 6,401           | 13,884          |
| Total assets                                           | 96,623               | 102,455         | 235,070          | 145,506         | 39,854               | 37,412          | —               | —               | 371,547         | 285,373         |
| Capital assets & goodwill                              | 47,267               | 47,634          | 145,194          | 94,053          | 21,283               | 20,272          | —               | —               | 213,744         | 161,959         |

p.54 >

# Notes to Consolidated Financial Statements

June 30, 2000

(tabular amounts expressed in thousands of dollars) > >

Revenues, capital assets and goodwill by geographic area are as follows:

|                | 2000<br>(\$000) | 1999<br>(\$000) | 2000<br>(\$000)           | 1999<br>(\$000) |
|----------------|-----------------|-----------------|---------------------------|-----------------|
|                | Revenue         |                 | Capital assets & goodwill |                 |
| United States  | 297,779         | 261,952         | 145,245                   | 94,053          |
| Canada         | 185,538         | 157,673         | 51,391                    | 49,218          |
| United Kingdom | 14,405          | 10,124          | 17,082                    | 18,631          |
| Germany        | 5,858           | 3,677           | 26                        | 57              |
| Japan          | 1,305           | 888             | —                         | —               |
| Other          | 1,694           | 1,274           | —                         | —               |
| Total          | 506,579         | 435,588         | 213,744                   | 161,959         |

## 18 Comparative figures

Certain of the 1999 comparative figures have been restated to conform to the 2000 presentation.

p.55 >

# Ridley Inc. Corporate Directory > >

## Business Unit Managers

| U.S. Feed Operations                                                          | Ridley Block Operations                                                                                                                                                                                                                                                                                                        | Canadian Feed Operations                                          | Cotswold Operations                                                                                                                                              |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Steve VanRoekel<br>V.P., General Manager,<br>U.S. Feed Operations             | Bob Frost<br>V.P., General Manager,<br>Ridley Block Operations                                                                                                                                                                                                                                                                 | Cal Martin<br>General Manager,<br>Canadian Feed<br>Operations     | John McKee<br>V.P., General Manager,<br>Cotswold Operations                                                                                                      |
| Gary Turner<br>General Manager,<br>Eastern Business Unit                      |                                                                                                                                                                                                                                                                                                                                | John Drost<br>General Manager,<br>Alberta Business Unit           | Raymond Alexander<br>Director of Export Opera-<br>tions                                                                                                          |
| Gary Kee<br>General Manager,<br>East Central<br>Business Unit                 |                                                                                                                                                                                                                                                                                                                                | Al McKim<br>General Manager,<br>Saskatchewan<br>Business Unit     | Reg Joseph<br>Director of Great Britain<br>& German Operations                                                                                                   |
| Jim Archer<br>General Manager,<br>North Central<br>Business Unit              |                                                                                                                                                                                                                                                                                                                                | Jim Linaker<br>General Manager,<br>Manitoba/Daco<br>Business Unit | Cam McGavin<br>General Manager,<br>Cotswold Americas                                                                                                             |
| Werner Braun<br>General Manager,<br>West Central<br>Business Unit             |                                                                                                                                                                                                                                                                                                                                |                                                                   |                                                                                                                                                                  |
| Dennis Fredericksen<br>General Manager,<br>Western Business Unit              | <b>Auditors:</b><br>PricewaterhouseCoopers<br><br><b>Bankers:</b><br>The Bank of Nova Scotia<br><br><b>Legal Counsel:</b><br>Borden Ladner Gervais<br><br>Dorsey & Whitney LLP<br><br>Pitblado Buchwald Asper<br><br><b>Transfer Agent:</b><br>The Montreal Trust Company of Canada<br>For inquiries: Telephone (800) 429 6634 |                                                                   |                                                                                                                                                                  |
| Mike Hudspith<br>General Manager,<br>Feed Ingredient/Poultry<br>Business Unit |                                                                                                                                                                                                                                                                                                                                |                                                                   | Winnipeg, Canada<br><br>Winnipeg, Canada<br><br>Toronto, Canada<br><br>Minneapolis, U.S.A.<br><br>Winnipeg, Canada<br><br>Winnipeg, Canada<br>Fax (204) 985 3162 |



---

### Corporate Office

J S Keniry,  
Chairman

R B Galloway,  
President & CEO

M S Mitchell,  
Chief Financial Officer

J D Richardson,  
Corporate Secretary

2400 Richardson Building  
One Lombard Place  
Winnipeg, Manitoba, Canada  
R3B 0X3

Telephone: (204) 956 1717

Facsimile: (204) 956 1687

Website: [www.ridleyinc.com](http://www.ridleyinc.com)

### USA Operations

424 North Riverfront Drive  
P.O. Box 8500  
Mankato, Minnesota, U.S.A.  
56002-8500

Telephone: (507) 388 9400

Facsimile: (507) 388 9415

Websites:

[www.hubbardfeeds.com](http://www.hubbardfeeds.com)

[www.waynefeeds.com](http://www.waynefeeds.com)

### Canadian Operations

17 Speers Road  
Winnipeg, Manitoba, Canada  
R2J 1M1

Telephone: (204) 233 8418

Facsimile: (204) 231 2402

Website: [www.feedrite.com](http://www.feedrite.com)

### Cotswold Operations

PO Box 156  
135 Main Street  
Shipshewana, Indiana, U.S.A.  
46565

Telephone: (219) 768 4585

Facsimile: (219) 768 4971

Website: [www.cotswoldpig.com](http://www.cotswoldpig.com)



RIDLEY Inc.



HUBBARD



Generations Ahead

---

### Financial Calendar 2000 – 2001\*

Following are the anticipated dates on which the  
Company will announce its results of operations:

First quarter report to September 30

November 7, 2000

Second quarter report to December 31

February 23, 2001

Third quarter report to March 31

May 16, 2001

Year-end results to June 30

August 27, 2001

\* Subject to change

---

### Company Information

For investment analyst inquiries, please contact our Chief Financial Officer at (507) 388 9410. For copies of annual and quarterly reports, annual information form and other disclosure documents, please contact our Corporate Secretary at (204) 956 3153.

Trading Symbol: RCL on The Toronto Stock Exchange

The following trade names are owned or licensed by Ridley Inc. and its subsidiaries: Ridley, Feed-Rite, Hubbard, Cotswold, Wayne Feeds, Daco Western Canada, Farmix, Quality Feeds, Crystalx®, RITE LIX™.



RIDLEY Inc.